2021

ANNUAL REPORT AND FINANCIAL STATEMENTS

HAPPINNESS IS
INSURING YOUR FUTURE

APA, Insuring Happiness

APA INSURANCE

www.apainsurance.org

CONTENTS

COMPANY INFORMATION

Board of Directors

D.M. Ndonye – Chairman

A.K.M. Shah

S.M. Shah

P. Shah*

M. M'Mukindia

Jeremy Rowse*

Risper Ohaga (Appointed on 19.11.2021)

R.M. Ashley* (Resigned on 19.11.2021)

**British*

Secretary

P.H. Shah

Certified Secretary (Kenya)

Management Team

V. Bharatan	-	Chief Executive Officer
K. Shah	-	Group Chief Finance Officer
J. Kigochi	-	Chief Finance Officer
P. Khimasia	-	Chief Operating Officer
A. Mabuka	-	Head of Corporate Business
J. Kosgei	-	Head of Health
S. Kariuki	-	Group Head of Internal Audit
J. Nyakomitta	-	Group Chief Information Officer
B. Kajuju	-	Group Head of Human Resources
B. Otieno	-	Group Head of Risk
G. Nganga	-	Group Head of Corporate Communications and Marketing
D. Ogulla	-	Head of Claims and Legal
A. Njoki	-	Reinsurance Manager
S. Khimasia	-	Head of Digital
W. Oyuga	-	Head of Branches
I. Sakuda	-	Chief of Staff

Registered Office

Apollo Centre, 07 Ring Road Parklands, Westlands

P.O. Box 30065 - 00100

Nairobi

Principal Bankers

NCBA Group Limited

P.O. Box 30437 - 00100

Nairobi

Standard Chartered Bank Kenya Limited

P.O. Box 30001 - 00100

Nairobi

Independent Auditors

Deloitte & Touche LLP

Certified Public Accountants (Kenya)

Deloitte place, Waiyaki Way, Muthangari, Westlands

P.O. Box 40092 – 00100

Nairobi

Appointed Actuary

Zamara Actuaries, Administrators & Consultants Limited

Landmark Plaza, Argwings Kodhek Road

P.O. Box 52439 – 00200

Nairobi

Head Office

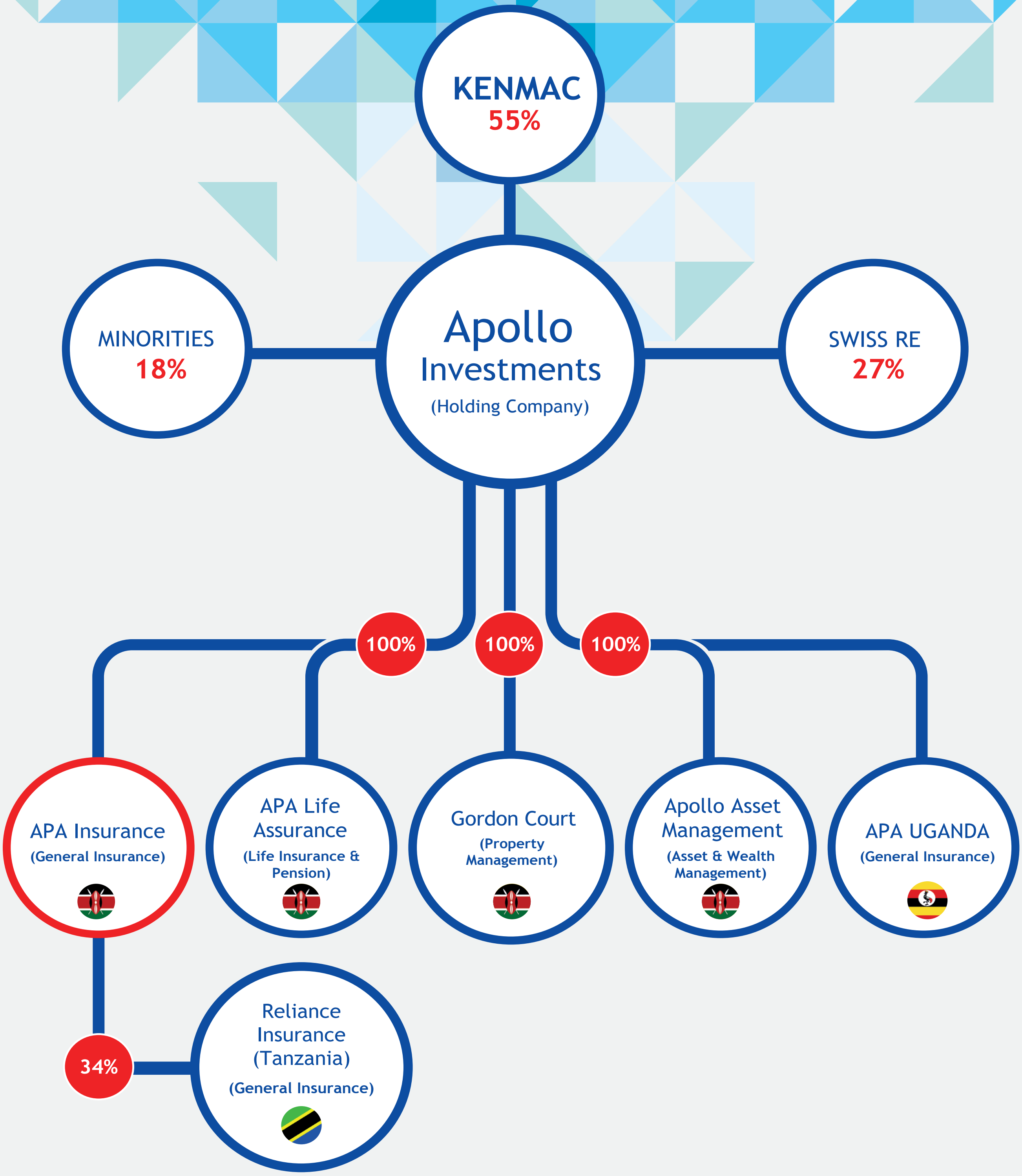
Apollo Centre, 07 Ring Road Parklands, Westlands

P.O. Box 30065 - 00100 Nairobi

Tel: +254 (0) 20 286 2000

Nairobi

GROUP STRUCTURE



BOARD OF DIRECTORS

Daniel Ndonye
Chairman

Ashok Shah
Director

Shashikant Shah
Director

Pratul Shah
Company Secretary

BOARD OF DIRECTORS *(continued)*

Mary M'Mukindia
Director

Jeremy Rowse
Director

Risper Ohaga
Director

Piyush Shah
Director

MANAGEMENT TEAM

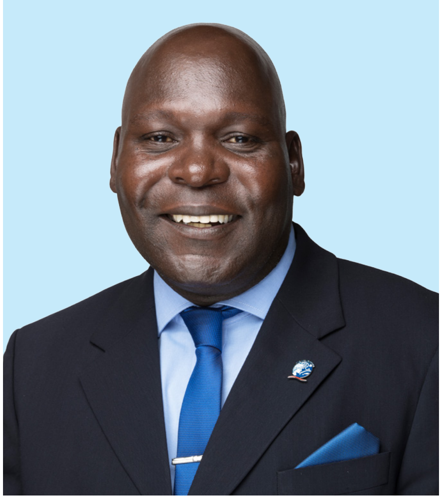
Vinod Bharatan
Chief Executive Officer

Keval Shah
Group Chief Finance Officer

John Kigochi
Chief Finance Officer

Parul Khimasia
Chief Operating Officer

Amos Mabuka
Head of Corporate Business



Justine Kosgei
Head of Health

Stella Kariuki
Group Head of Intenal Audit

James Nyakomitta
Group Chief Information Officer

Beth Kajuju
Group Head of Human Resources

MANAGEMENT TEAM *(continued)*

Benjamin Otieno
Group Head of Risk

Grace Nganga
Group Head of Corporate Communications & Marketing

Dinah Ogulla
Head of Claims & Legal

Ann Njoki
Reinsurance Manager

Saagar Khimasia
Head of Digital

Wilson Oyuga
Head of Branches

Irene Sakuda
Chief of Staff

APOLLO GROUP TIME CAPSULE

1946

Pan Africa was founded in Mombasa as 'IndoAfrica' by the Patel Community

1963

IndoAfrica changes its name to Pan Africa, moves to Nairobi and joins the Stock Exchange

1975

Ashok Shah comes back to Kenya for holiday and finds out that his family has lost their farm and coffee has been stolen

1977

Shashi Shah is trained by SwissRe, who also provided technical support to Apollo

Shashi Shah decides to venture in Insurance and founded Apollo Insurance, naming it after Apollo 13

The first office was opened in Mombasa and comprised of two rooms with only 5 employees

1980's

Apollo was the leading company in Life Insurance Brand promise was: "Be Apollosure, Insure with Apollo"

Apollo Life business was managed from Mombasa while General Insurance was managed from Nairobi

1994

Shashi, who had served as CEO until now steps down, with an interim CEO in place

1996

Ashok Shah, who had thus far been helping on Marketing and other areas is appointed as new CEO

2000

Pan Africa brought on a new strategic partner and instituted major changes in the board

2002

Pan Africa approaches Apollo and starts discussion to consolidate the 2 general businesses

2003

APA Insurance Kenya formed after the merger of the General Insurance businesses of Apollo Insurance Company and Pan Africa Insurance

2010

Pan Africa sells their shares in APA. Leapfrog invests in Apollo Insurance

AIL set up Uganda and a new life & health system

Apollo Insurance hives off life insurance business to Apollo Assurance & changes its name to Apollo investments

pilots Micro Insurance and APA innovates again & Agriculture Insurance

Apollo exceeds the 200 employee mark for the first time in its existence

Ashok Shah-1st recepient of the Life time Achievement award at the Think Business Insurance awards

2013

Apollo Life Assurance Ltd rebrands to APA Life Assurance Limited

2014

1.97 Billion claim paid to JKIA in record time of 6 months

Leapfrog sells their 27% shares to SwissRe (who has been APA's reinsurersince 1977)

2015

Apollo doubles its number of employees in just 5 years, exceeding the 400 mark

2017

Catherine Karimi - 1st Female CEO of APA Life Assurance

The microfinance and agri insurance receives a matching grant of $2.5M from MCF to support agricultural businesses

1981

Apollo establishes its first branch in Nairobi, located at Hughes building 6th floor

Apollo starts looking for support to continue growing and expanding its business

Shashi Insurance agents agree to start placing business with Apollo

1982

Gordon Court is purchased as a specialist property development company

1984

First support came from Minet, who helped place more businesses

1987

The Insurance Act of 1984 came into effect, mandating immediate & major changes within Apollo

Apollo decides to change its governance structure, implementing stricter rules

Apollo also institutes major financial restructuring to meet the Act's requirements

1991-92

Apollo places more emphasis on General Insurance. Life Insurance became stagnant due to lack of a good distribution strategy

2004

APA starts trading "A New Dimension in Insurance"

APA settles enormous amounts for all the discharge vouchers issued by Pan Africa before the merger

2006

APA holds its first Power of Alignment retreat and launches new brand promise titled "Rewriting the Rules of Insurance"

For 6 years until now, APA was the sole provider of HIV cover in health insurance. Others now follow suit

Gordon Court - starts the construction of Apollo Centre which becomes the Group headquarters

2006-07

APA is a trailblazer again! APA is now the only one to insure old cars and old people up to the age of 75-80

2007 onwards

APA is considered as one of the biggest players in Insurance in Kenya

2009

APA Insurance (Uganda) commences operations as a specialist General Insurance provider in Uganda

All entities move to Apollo Centre, retaining a branch at Hughes Building

2018

APA actively starts looking at digitization as a key step to position itself amongst the best insurers in the world

Launched the happiness campaign: "Insuring happiness"

Vinod Bharatan wins the CEO of the Year at the Think Business Insurance award

2019

APA starts digital journey

APA wins the European microfinance award for strengthening resilience to climate change

2020

APA launches the hAPPiness App

Annual Travel insurance cover is embedded in existing group life and medical policies

Catherine Karimi wins the CEO of the Year at the Think Business Insurance Awards

APA Insurance emerges the overall winner in 2020 FiRe Awards insurance sector

CHAIRMAN'S STATEMENT

Daniel Ndonye | Chairman

Dear Shareholders,

It is my great pleasure to present the 2021 annual report and financial statements for APA Insurance Limited. The Company continued to perform well despite the various challenges in our operating environment.

Business Environment

2021 was generally expected to be a recovery year after the shocks of 2020. The economic activities increased as the government relaxed Covid-19 restrictions. A sluggish 0.7% growth in the first quarter was supplemented by a higher 10.1% growth in the second quarter and a 9.9% growth in the third quarter. This was mainly driven by rebounds in education, tourism, wholesale and retail, real estate and manufacturing sectors. The economic activities, as measured by the Stanbic Purchasing Managers Index (PMI), recorded an averaged growth of 50.56 compared to an average of 48.00 in 2020.The Central Bank of Kenya through the Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 7% as part of its accommodative monetary policy stance to support economic activity. Inflation remained relatively stable anchored within the target range of between 2.5% and 7.5%. The marginal rise in average annual inflation during the year from 5.41% to 5.62% was mainly driven by higher food and fuel prices.

The Kenya shilling lost ground against the dollar depreciating by 3.59% year on year to close at 113.14 from 109.22 at the beginning of 2021. The diaspora remittances remained a bright spot supporting currency inflows into the Kenyan economy. Usable forex reserves were resilient at an average of US$ 8.7Bn (5.3 months of import cover) in 2021. This foreign currency liquidity cover was sufficient to absorb any shocks.

The investor sentiment towards equities was buoyed by a return of foreign inflows on key blue-chip counters as major indices recorded improved performance in the year; NSE 20 (+1.8%), NSE 25 (+9.6%) and NASI (+9.4%); an improvement across the board from 2020. The leading stocks that yielded these returns include those in the banking, manufacturing and telco sectors. The treasury bill rates on the other hand continued on an upward trajectory with average rates for the 91, 182 and 364-day debt issues at 7.3%, 8.0% and 9.1% respectively in December 2021. The government borrowing also rose to plug the budget deficit which saw it benefit from increased demand for fixed income instruments effectively achieving the government's borrowing needs.

CHAIRMAN'S STATEMENT *(continued)*

Insurance Sector Regulatory Changes

In 2020, several regulations were issued by the regulator and consequent follow-ups with the industry for operationalization and status assessments. Some of the regulations were Micro insurance regulations 2020; Bancassurance regulations 2020 and Group-wide supervision regulations 2020.

These regulations aim to strengthen the industry both for the players and the customers. We have seen increased focus on the consumers by the regulator which will build confidence in existing customers and the uninsured market. Regulatory focus is also geared to wind out unethical practices and Anti Money Laundering and Combating Financing Terrorism activities, ensuring that players have put measures in place to curb such unwelcome practices. We foresee increased regulations in the future, sensibly applied to the benefit of the customer, industry players and the financial sector.

Financial Performance

It is worth noting that the insurance industry registered a double digit growth in 2021 after several years fraught with near flat growths and dips in penetration. From the headline numbers available, the industry has grown by 15% in 2021 partly through the implementation of flexa rates.

" 2022 being an election year in Kenya, we are cautiously optimistic that the resilience and economic growth targets will be achieved in the midst of intense political competition "

The Company has registered revenue growth and was able to break the Shs 10 billion ceiling. 2021 reported a premium growth of Shs 1.1 Billion (12%) to attain a gross written premium of Shs 10.6 Billion from a gross written premium of Shs 9.5 Billion in 2020. The major driver of the growth was new business, mainly non motor which accounted for Shs 3.65 Billion.

There was an improvement in performance for non-health business reporting an underwriting profit of Shs 192 Million from an underwriting profit of Shs 177 Million in 2020. This was however cancelled by an under performance in Health business which reported a significant underwriting loss of Shs 119 Million from an underwriting profit of Shs 88 Million in 2020. This consequently resulted to an overall underwriting profit of Shs 73 Million against the Shs 265 Million profit for 2020. With the return to normalcy and opening up of the economy in 2021, the Company experienced a rise in motor and medical claims driving the adverse underwriting performance. The Company's progressive approach to the payment of Covid-19 claims, in the interest of society as a whole continued with a payout of Shs 242 Million (2020: Shs 115 Million) adversely impacting our health business.

The profit before taxation for the year is Shs 841 million from Shs 628 million in 2020, a 34% increase due to higher investment income.The total investment income had a stellar performance growing from Shs 668 Million in 2020 to Shs 918 Million in 2021. The capital adequacy ratio (CAR) stood at a healthy 292% (2020: 267%), well above the proposed statutory requirement of 200%. The board has considered the level of retained profits and the need to maintain optimal capital adequacy ratio and recommends no dividend (2020: Shs 850 million) for the year.

The Board

As I write this statement, two changes to our Board have occurred. Mr. Richard (Rick) Ashley has stepped down as a director, having served since 14 May 2015. On behalf of the board, I would like to thank Rick for his invaluable contribution across many aspects of the business over the years. In his place, we warmly welcome Ms. Risper Ohaga to the Board. Ms. Ohaga is a seasoned company director, with extensive experience in strategy, finance and audit having worked with major blue chip companies both locally and internationally. We shall benefit from her vast experience as we steer APA and the group to greater heights.

Regional Presence and Associate Company

The Apollo Group operates in Kenya, Uganda and Tanzania with an elaborate branch network for prompt service delivery, truly making the Group an East African focused player. In Kenya, we have over 30 offices located in major economic hubs. Group synergies continue to be harnessed in order to ensure optimal returns to each entity and the Group.

In Tanzania, our associate company, Reliance Insurance Company (Tanzania) Limited, where APA Insurance is the largest single shareholder (34%), recorded a 21.6% premium income increase equivalent to Kenya shillings 1.662 billion and had a total asset base of Kenya shillings 2.477 billion. The growth in business is mainly due to the strengthened intermediary relationships and superior customer experiences.

Outlook

2021 saw widespread Covid-19 vaccine deployment and easing of pandemic-related restrictions important catalysts that helped rebuild confidence among the populace and businesses alike, while fuelling economic recovery. The battle with Covid-19 pandemic is not over, and a level of uncertainty will likely persist for some time. We believe that, despite these ongoing Covid-19 concerns, insurers in general expect more rapid growth this year although non-pandemic challenges around regulation, talent, sustainability, and evolving consumer preferences may present some speed bumps. Much will depend on how effectively insurers manage their investments in people and emerging technologies. Flexible work models, balancing automation with the need to maintain a human touch with customers and being more proactive in bolstering stakeholders' trust should be among the industry's strategic priorities.

CHAIRMAN'S STATEMENT *(continued)*

Outlook (continued)

The International Financial Reporting Standard (IFRS) 17 on insurance contracts is set to kick in on 1st January 2023 with a restatement of the 2022 comparatives. IFRS 17 will fundamentally change the accounting for all entities that issue insurance contracts within the scope of the standard. The issuers of insurance contracts will need to use consistent measurement models based on current assumptions at a more granular level. Insurers have an opportunity to create an innovative organization change management program that goes well beyond "compliance" with this new standard.

The unfortunate ongoing Russia – Ukraine war and the resultant global sanctions on Russia are starting to wreak havoc on global trade, with potentially devastating consequences for energy and grain importers while also generating ripple effects across a world still struggling with pandemic-induced supply chain disruptions. As a result, this could result in inflation spiral as well as increase in the foreign currency exchange rates.

2022 being an election year in Kenya, we are cautiously optimistic that the resilience and economic growth targets will be achieved in the midst of intense political competition. Needless to state that the economy still remains vulnerable to the electioneering cycle as the business community and investors take a wait and see approach.

Appreciation

On behalf of the Board, I wish to express our deep gratitude to our clients, insurance intermediaries, reinsurers, business partners, suppliers, service providers, shareholders and the regulatory authorities for the business and support throughout the year. I recognise and give my thanks to the management and staff of the Company for their loyalty, dedication and hard work that has made these results possible.

As I conclude, I wish to thank my fellow directors for their commitment, support and considered advice that is so essential in this extremely competitive and specialised industry.

Together, we will maintain our strong brand of Insuring Happiness in the industry.

Daniel M. Ndonye
Chairman

17 March 2022

HAPPINESS IS...

KNOWING YOUR IMPORTS/EXPORTS ARE SECURE.

MARINE COVER

CHIEF EXECUTIVE OFFICER'S STATEMENT

Vinod Bharatan | Chief Executive Officer

I am delighted to present the CEO's statement for APA Insurance Limited for the year ended 31 December 2021.

Insurance Industry Review & Regulatory Changes

The insurance industry is undergoing transformation and companies seeking to expand must evolve to meet the changing needs of their customers. Digital transformation is particularly important to the industry in order to offer customers ancillary services seamlessly. Customers are driving the digital shift, creating for insurers an "outside-in" view, where they must move away from a transaction focus to create holistic, compelling experiences. Insurance companies must reinvent themselves and deliver customized products and highly personalized services to meet new expectations from customers and keep in step with new digital leaders.

We acknowledge the Insurance Regulatory Authority's innovation hub to help innovators refine their value proposition, determine commercial viability, and provide opportunities - through the IRA sandbox. This demonstrates the regulators commitment to support and see growth and innovation of the industry.

Covid-19 pandemic has caused a shift in organisations from reliance on physical working locations to remote working, working across borders and time zones. The effects of the Covid-19 pandemic will be felt by the insurance industry and its customers well into 2022 as consumers and businesses continue to face economic challenges even as we move back to normalcy.

The regulatory environment continues to be weak with companies whose solvency ratios are below 100% operating. There is still no indication that the long awaited Risk Based Capital (RBC) regime, which was supposed to be implemented some years past is being enforced. In the RBC, though not a panacea for the industry issues lies some answers to some of the industry business habits.

The quality of data remains a key focus, with both privacy laws and increases in pandemic-related digital customer engagement requiring insurers to increase focus on data governance. There continues to be a heavy focus on the ability to operationalize core risk management and compliance frameworks, principles and requirements within a firm's operating model and culture.

All these regulatory trends are expected to have a major impact on the insurance industry over the next 24 months and require close monitoring and action from leadership.

It is worth noting that the insurance industry registered a double digit growth in 2021 after several years fraught with near flat growths and dips in penetration. From the headline numbers available, the industry has grown by 15% in 2021. The major industry players equally registered significant growths in the period.

CHIEF EXECUTIVE OFFICER'S STATEMENT *(continued)*

Company's Performance Review

The Company registered a decent premium growth and was able to break the Shs 10 billion ceiling to qualify for the top four in this league. 2021 was the best year top line wise growth since 2018. The Company registered an impressive premium growth of Shs 1.1 billion (12%) to attain a gross written premium of Shs 10.6 billion from a gross written premium of Shs 9.5 billion in 2020.

We recorded very good uptake of Shs 3.65 billion in new business but lost out on renewal retention which was at 76%, a marginal improvement from 74% in 2020. The renewals retention during the year proved to be a challenge on the backdrop of the minimum rates given by the reinsurers that were liberally flouted by some competitors. One very encouraging fact is that we have grown in all the non-motor classes whereas the motor portfolio remained flat in line with our strategy of portfolio mix diversification.

" It is worth noting that the insurance industry registered a double digit growth in 2021 after several years fraught with near flat growths and dips in penetration "

The underwriting profit for the period was Shs 73 million, a drop from Shs 265 million recorded in 2020 mainly due to adverse loss ratios experience. The overall loss ratio worsened to 72% in 2021 from 64.5% in 2020. With the return to normalcy and opening up of the economy, the Company experienced a rise in motor and medical claims. The medical claims were partly due to a spike in claims paid for Covid-19 by Shs 127 million from same period last year, paying a total of Shs 242 million in 2021. We expect that the Covid-19 claims will significantly subside in the coming year as a result of the country wide vaccination drives that have been ongoing since 2021. APA has been at the centre of organizing the vaccination drives and helping our clientele go through the ailments beyond the contractual expectations.

The performance and monitoring of our branches as profit centers has been strengthened in the year with the extensive usage of the BI tool. We have noted some improvement with a few more offices joining Head Office and Mombasa to return an underwriting profit.

The total investment income grew by an impressive 37.4% in 2021 from Shs 668 million in 2020 to Shs 918 million in 2021. The income growth of Shs 250 Million is attributed to higher interest income on the shift of yield curve and reduced fair value losses on the available for sale portfolio in 2021 at Shs 97 million as compared to Shs 233 million for 2020. The resultant profit before taxation for the year is Shs 841 million up from Shs 628 million reported in 2020, a 34% growth.

2021 experienced a stellar performance on the Company's Capital Adequacy Ratio, reporting a ratio of 292% from 267% in 2020 against the 200% proposed regulatory requirement mainly due to the improvement in our credit risk and market risk exposure. In 2021, we have achieved a return on equity of 11.7% up from the 9.3% achieved in 2020.

Corporate Social Responsibility

At APA, we appreciate that we have a responsibility to our society and we have made Corporate Social Responsibility (CSR) an integral part of our business culture. To underline our deep commitment to making a difference in people's lives, we are guided by existing policy and we continue to commit to a substantial budgetary allocation each year to CSR initiatives through the APA Apollo Foundation. Our objective remains to support sustainable projects that uplift the standards of communities that we partner with for support.

In 2021, we continued to support our customers on all fronts to keep them afloat and we are happy to have walked the journey together. With improved trends under Covid-19 restrictions, we see a bright future as we resume in full force the support on our key pillars.

Outlook

The rebound in global activity, together with supply disruptions and higher food and energy prices, have pushed up headline inflation across many countries. After rebounding by an estimated 5.5% in 2021, global growth is expected to decelerate in 2022 to 4.1%, reflecting continued Covid-19 flare-ups, diminished fiscal support and lingering supply bottlenecks. This reflects the continued disruption caused by Covid-19 as well as supply bottlenecks according to the World Bank.

Kenya's general elections are set to be held in August 2022 and with a few months to go, we have seen the political temperatures in the country continue to rise. We remain optimistic that the resilience and economic growth targets will be achieved in the midst of intense political competition.

The insurance industry, in the coming years, must undergo a significant transformation to adapt to current and future realities, which may offer new opportunities for business and growth. We believe that the values that have enabled us to come this far will be an asset, and together with what we have learnt during the pandemic, we are optimistic about facing the new challenges ahead.

Technology and innovation are more important now than ever. Transparency, sustainability, and corporate responsibility are no longer optional, but obligations for a business and individuals. Client focus, improving and making changes to services, solutions and methodologies are essential to remaining aligned with our clients in their own transformation. Teamwork, training, professional growth and the search for excellence, both as employees and collaborators, are the keystones of any transformation.

CHIEF EXECUTIVE OFFICER'S STATEMENT *(continued)*

Outlook (continued)

The International Financial Reporting Standard (IFRS) 17 on insurance contracts is set to kick in on 1st January 2023 with a restatement of the 2022 comparatives. IFRS 17 will fundamentally change the accounting for all entities that issue insurance contracts within the scope of the standard. We have created the necessary teams and enlisted the required support to ensure compliance with this standard and more importantly derive additional value to the Company.

Appreciation

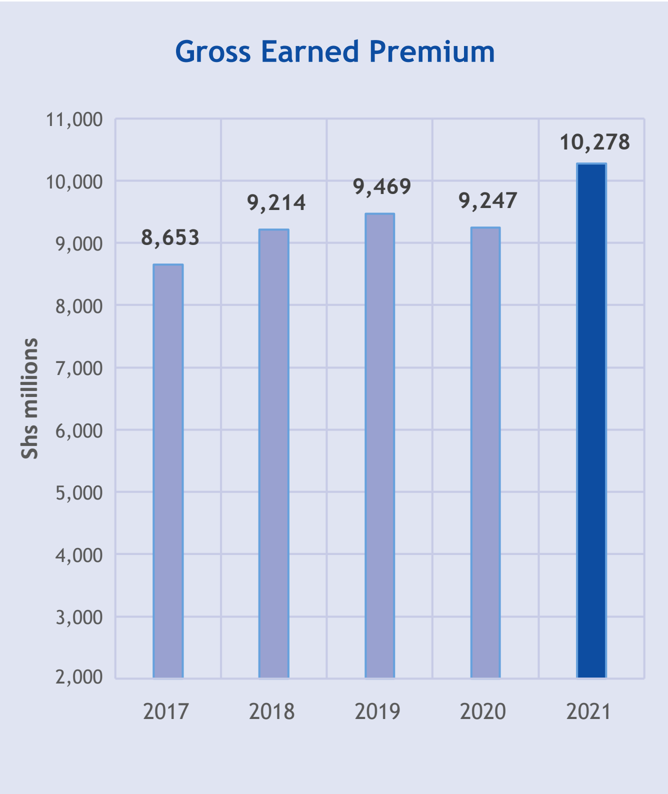
The contribution by APA's stakeholders has ensured our continued strong performance. These includes amongst others the business partners, intermediaries, customers, aggregators and regulators. I would like to thank you for your continued support and loyalty, which have been instrumental in reinforcing APA's position as the financial services provider to reckon with in the Kenyan insurance market.

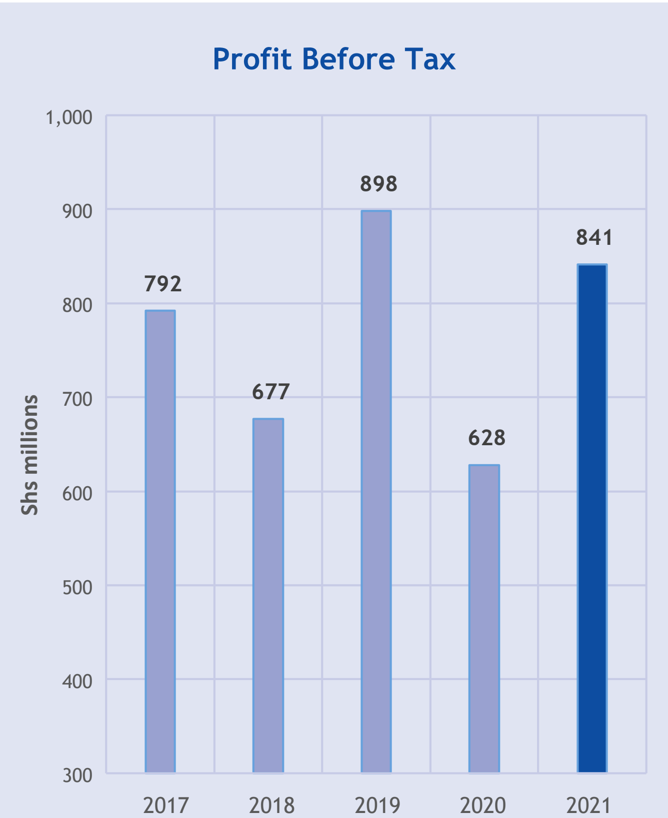
I also thank all our staff across the country who continue to show dedication and provide superior services to our customers. I would also like to acknowledge with appreciation my colleagues in management and our board of directors for their diligence, guidance and support that has enabled us achieve the results during the year.

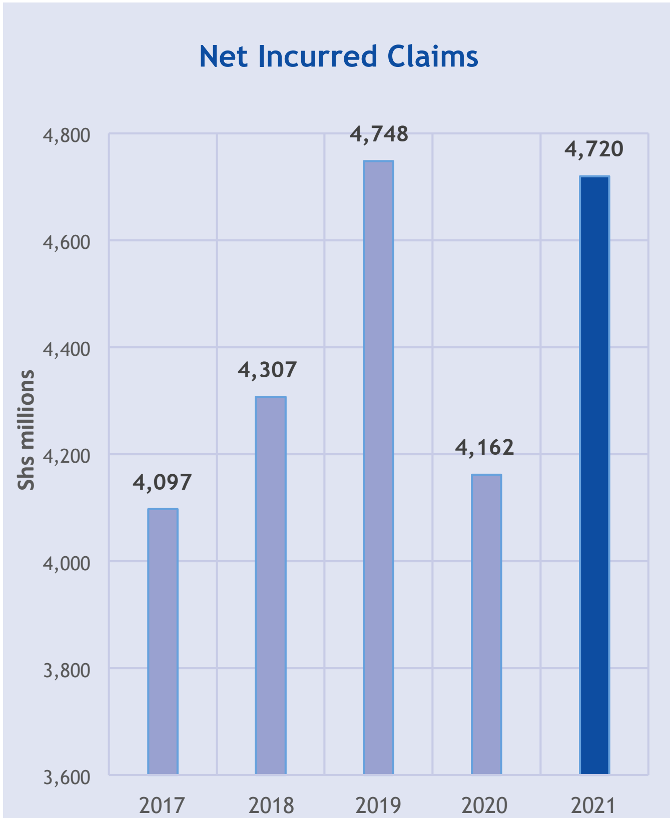
Vinod Bharatan
Chief Executive Officer

17 March 2022

FINANCIAL HIGHLIGHTS







CORPORATE GOVERNANCE STATEMENT

Introduction

Good corporate governance is key to the integrity of corporations, financial institutions and markets and is central to the health of our economies and their stability. Corporate governance plays a leading role in making certain how corporations and their boards and management are directed, controlled and held to account. Corporate governance therefore encompasses the systems, practices and procedures by which the individual corporation regulates itself in order to remain competitive, ethical, sustainable and fair.

The Board of APA Insurance Limited follows principles of openness, integrity and accountability in its stewardship of the Company's affairs. It recognises the developing nature of corporate governance and assesses the Company's compliance with generally accepted corporate governance practice on a regular basis, directly and through its Board committees and Management. The role of the Board is to ensure conformance by focusing on and providing the Company overall strategic direction and policy-making as well as performance review through accountability and ensuring appropriate monitoring and supervision. The Board is also responsible for the overall system of internal control and for reviewing its effectiveness. The controls are designed to both safeguard the Company's assets and ensure the reliability of financial information.

A senior management team, comprising executive directors, divisional directors and senior managers meets regularly to consider issues of operational and strategic importance to the Company.

Below are the key features of the existing corporate governance practices within the Company which are reviewed and improved on a regular basis:

1. Board of Directors

The Board of Directors consists of seven directors out of whom three are independent non-executive directors. The Chairman of the Board is a non-executive director and the Board meets formally at least four times a year.

The Board is responsible for setting the direction of the Company through the establishment of strategic objectives, key policies and the approval of budgets. It monitors the implementation of strategies and policies through a structured approach to reporting by executive management and consequent accountability.

The directors are actively involved in and bring strong independent judgement on Board deliberations and discussions. These directors have a wide range of knowledge and experience of local and international markets that is applied to the formulation of strategic objectives and decision making.

All directors have access to the advice and services of the Company Secretary and are entitled to obtain independent professional advice on the Company's affairs.

The Board meets regularly and retains full and effective control over the Company in all strategic, financial, operational and compliance areas. In 2021, four board meetings were held and the attendance by the directors was as follows:

	Total board meetings in the year that the director was eligible to attend	Number of board meetings attended
D M Ndonye – Chairman	4	4
A K M Shah	4	3
S M Shah	4	4
J Rowse	4	4
R M Ashley (Resigned on 19.11.2021)	4	4
P Shah	4	4
M M'Mukindia	4	4
R Ohaga (Appointed on 19.11.2021)	-	-

CORPORATE GOVERNANCE STATEMENT *(continued)*

To assist the Board in the discharge of its responsibilities, Board committees have been established. All the Board committees meet at least four times a year. The committees are as follows: -

(a) Audit and Risk Committee

The audit and risk committee comprises four non-executive directors and the executive director. The committee is responsible for, inter alia, developing and advising on audit and financial controls and compliance issues of the Company. It also defines the scope of the internal audit function and acts as a liaison between the external auditors and management. The current members of the committee R Ohaga (Chairperson), D M Ndonye, P Shah, J Rowse , M'Mukindia and A K M Shah.

(b) Information and Communication Technology (ICT) Committee

The ICT committee comprises one non-executive director, the professional nominated under shareholder's agreement and the executive director. The committee provides guidance to the Board on ICT requirements for the Company, provides assurance that the ICT systems in place are able to generate accurate and timely management reports and also reviews ICT budgets and recommends for their adoption by the Board. The committee also ensures that there are business continuity plans in place for the Company. The current members of the committee are P Shah (Chairman), PH Shah and AKM Shah.

(c) Investment Committee

The Board has an investment committee comprising three non-executive directors, board advisor and the executive director. This committee is responsible for determining the Company's overall investment strategy and monitoring its implementation. The current members of the committee are D M Ndonye (Chairman), R M Ashley, S M Shah, P H Shah, J Rowse and A K M Shah.

(d) Remuneration Committee

The remuneration committee currently consists of three non-executive directors and the executive director. Its primary objective is to ensure that the right calibre of management is recruited and retained and set guidelines for remuneration of staff. The non-executive directors on the committee are responsible for recommending the terms of service in respect of the executive directors to the board. The committee is also responsible for ensuring that the terms and conditions of service for management and staff is fair, appropriate and reflect the market conditions. The current members of the committee are M'Mukindia (Chairperson), D M Ndonye , J Rowse, PJ Shah (holding company director) and A K M Shah.

2. Internal Controls

The Company has implemented and maintains internal controls designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard and maintain accountability of the Company's assets. Such controls are based on established policies and procedures and are implemented by trained personnel with appropriate segregation of duties. The effectiveness of the system of internal controls is monitored regularly through internal audit function, operational meetings and the annual external audit.

3. Related Party Transactions and Directors' Remuneration

The related parties' transactions with the group companies during the year ending, 31 December 2021 are detailed under note 40 of these annual report and financial statements. The remuneration for non-executive directors consists of fees and sitting allowances for their services in connection with the Board and committee meetings. These fees and allowances are approved by the members at the annual general meetings. The aggregate amount of director's remuneration for services rendered during the year ending 31 December 2021 are contained under note 40 of these annual report and financial statements.

4. Social and Environmental Responsibilities

The Board is conscious of the Company's social and environmental responsibilities. Particular attention is given to projects with a long time positive impact to the society and environment. These include employees' welfare programmes, education and health activities, empowering the youth and provision of clean and safe drinking water. The Company encourages staff to participate and actively supports them in various causes.

5. Going Concern

The directors confirm that the Company has adequate resources to continue in business for the foreseeable future and therefore the continued use of going concern as a basis of preparing the financial statements is appropriate.

Daniel M. Ndonye
Chairman

Ashok Shah
Director

17 March 2022

THE APOLLO GROUP

WE ARE COMMITTED TO ALL 17 SUSTAINABLE DEVELOPMENT GOALS

The Addis Ababa Action Agenda of 2015 recognized the importance of an expanded role of the private sector in achieving the Sustainable Development Goals (SDGs).

We are committed to all 17 Sustainable Development Goals but seek to make substantive impact on those goals that are strongly aligned to our business and social investments.

Our contribution to the SDGs in 2021 has focused on 11 main areas:

SUSTAINABLE DEVELOPMENT GOALS

1 NO POVERTY

2 ZERO HUNGER

3 GOOD HEALTH AND WELL-BEING

4 QUALITY EDUCATION

5 GENDER EQUALITY

6 CLEAN WATER AND SANITATION

7 AFFORDABLE AND CLEAN ENERGY

8 DECENT WORK AND ECONOMIC GROWTH

10 REDUCED INEQUALITIES

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

THE APOLLO GROUP

SUSTAINABLE DEVELOPMENT GOALS

HOW WE HAVE ACHIEVED THEM

SDG - 5 GENDER EQUALITY

As an organisation we believe in gender equality. This is practiced through HR policies. We currently have a 50 50 gender split in the company. Our leadership is made up of an equal split.

SDG - 8 DECENT WORK AND ECONOMIC GROWTH

Our HR policies are crafted to ensure that pay is commensurate to the job level and market rates. We review salaries based on performance and inflation rates on a year on year basis.

SDG - 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

As part of our organisational strategy, we are moving towards paperless working therefore reducing the impact on trees as part of our effort towards responsible consumption.

SDG - 17 PARTNERSHIP FOR THE GOALS

We partner with key companies in order to achieve the Sustainable Development Goals.

CORPORATE SOCIAL RESPONSIBILITY

The APA Apollo Foundation 2021 Review;
Providing more than just financial support

The APA Apollo Foundation reflects the social and humanitarian values of The Apollo Group. Together with our partners and the APA employees, we not only provide financial support but aim to strengthen societal resilience in East Africa.
Covid-19 affected each one of us and acknowledging the pandemic's impact, The APA Apollo Foundation more than doubled its yearly funding to provide added support to our partners and projects through the ongoing crisis.
By creating the Foundation in 2006, we gave new governance to corporate citizenship and sustainability initiatives that The Apollo Group had long pursued. Our purpose is to support philanthropy aligned with the Group's values and to offer our employees more ways to engage in causes they care about. Over the last 15 years we have impacted millions of people in the region and in 2021 we continued to focus on the pandemic programmes, while still following through on our already planned and recurring commitments.

Our strategic commitments

Our strategic commitments aim to help realize the UN's Sustainable Development Goals (SDGs). We have been a signatory to the SDGs since their inception in 2015, and continue to uphold the universal call to action to end poverty, protect the planet and improve the lives and prospects of people globally.

As part of this, we have identified the SDGs most aligned with our business – those we believe we can contribute to the most as we scale our impact as a demonstrable force for good.

Our focus areas

The APA Apollo Foundation is committed to all 17 SDGs. In order to concentrate our efforts and increase our impact, we have defined priority in themes that apply to the following areas;

- Good Health and Well Being
- Quality Education
- Clean Water & Sanitation
- Climate Action

SDG 3 GOOD HEALTH & WELL BEING
Ensure healthy lives and promote wellbeing for all at all ages

CHELETA PRIMARY SCHOOL REUSABLE CHILDREN'S FACE MASKS

Students started returning to schools in January 2021 with both teachers and the children required to wear masks, observing physical distancing and following safe practices. Many students did not have good quality masks and some others had masks that were not comfortable or did not fit properly.

The APA Apollo Foundation supported Cheleta Primary School by donating over 1,000 reusable face masks to enable the school was able to open safely. Wearing a mask at school was essential in mitigating the risk of spreading the corona virus.

Catherine Karim -APA Life CEO hands over face masks to students in Chelata Primary School.

DONATED
- Reusable face masks
- Football boots & balls worth Shs 750,000

CORPORATE SOCIAL RESPONSIBILITY *(Continued)*

The Runda Youth Sports Association (RYSA)

The Foundation donated the new strip, football boots and balls worth Shs 750,000 to The Runda Youth Sports Association (RYSA).

The APA Apollo Foundation has been the main sponsor for the RYSA football teams since they were established over ten years ago and also assists with internships and job opportunities for the players.

The RYSA mission is to enhance youth potential through sports and education. It runs activities in Githogoro and Huruma villages near Runda Estate, Nairobi. Around 500 youth participate in RYSA activities annually.

The Foundation sponsorship includes the fees for RYSA to participate in the league and provides football kits, transport to matches and team allowances. It has also donated furniture for the cafeteria, internships and created job opportunities for several of the players.

Vinod Bharatan (Left) APA Insurance CEO hand over sports kit to the RYSA team Captain at the RYSA hand over ceremony in Cheleta.

SDG 4 QUALITY EDUCATION

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

OVER 40 Benefited from the bursary

Cheleta Primary School Bursary

The APA Apollo Foundation bursary scheme was created to educate the top achieving boy and girl from Cheleta Primary School, whose students come from Githongoro, an underprivileged area of Nairobi. Since its inception in 2007, over 40 students have benefited from the bursary and transition from primary school, to secondary school, to collage, a career and beyond. Currently six former students are attending Jomo Kenyatta University and others, who have graduated, have joined several leading companies in Kenya including The Apollo Group.

Cheleta Primary has transformed from a bottom of the table public school to a reputable institution with above average transition rates to secondary school. Students experiencing poverty can access, at every stage, the skills development, support and relationships necessary to thrive in education and the workforce.

Millicent Onyango, Top girl (left) and Elvis Kae, Top boy (centre), Cheleta Primary School, Nairobi proudly receive their cheque for their school fees from Vinod Bharatan, Chief Executive Officer, APA Insurance.

CORPORATE SOCIAL RESPONSIBILITY *(Continued)*

SDG 6 CLEAN WATER & SANITATION

Ensure availability and sustainable management of water and sanitation for all

Sand Dams & Wells for Machakos County

The Foundation's water projects involve Environment Conservation and Water Harvesting through construction of sand dams, water tanks and shallow wells. Since 2009, the Foundation has constructed over 35 water projects in various counties in Kenya.

During 2021 the Foundation completed three sand dam and wells in Furaha, Munyiiki and Kyou in Machakos County. The projects all lead to improved water supplies, food production, income sources and improved health status for the community members.

The construction of sand dams on dry river beds harness the water that only flows during rainy seasons. The water is retained in the sand that is deposited behind the dam. An artisan well with a hand pump is provided for easy access by the community. The natural filtration through the sand gives clean drinking water that is used both for agriculture and household.

The Foundation also encourages the benefiting communities to plant trees along the river beds to help curb soil erosion, provide food as well as beautifying the landscape. A minimum of 1000 trees were allocated for planting and maintenance to each household that benefit from the sand dams.

Joseph Muthtui (Left) and Esther Nyawira (Right) at the Kyou shallow well.

From left Kyou resident, Ashok Shah Group CEO Apollo Group, Esther Nyawira and Kevin Munene, Utooni Development CEO. The team had gone for a site visit at the Kyou dam in Machakos.

Water Tank Milimani Primary School - Naivasha

The APA Insurance, Naivasha Branch, donated a 5,000 liter water tank to ensure the students of Milimani Primary School had access to water for drinking, regularly washing of their hands and also cleaning of their classrooms. With improved sanitation, it helped in containing the spread of corona virus among the students.

This donation has also contributed to improved academics because the students have devoted more of their time to studying.

DONATED 5,000 litres water tank

Wycliff Ayienda (Right) Branch Mananger APA Naivasha, with staff members planting trees at Milimani Primary School.

SDG 13 CLIMATE ACTION

Take urgent action to combat climate change and its impacts

Elephant Neigbours Centre (ENC)

The Elephant Neighbours' Center (ENC) is a non-profit organization whose mission is to protect the African elephant and secure landscapes for elephants outside the protected areas.

Mr. Jim Nyamu, ENC co-founder, in November 2021, set off on a 31 day walk to raise awareness on the plight of elephants.

The 'Ivory Belongs to Elephants,' walk was launched by The APA Apollo Foundation at the St George's Girls Secondary School, Nairobi. To mark the occasion the Foundation planted 1,000 seedling both fruits and indigenous trees and donation funding to ENC.

During his 31 days of walking, Jim visited schools, churches and the local communities situated along the route to highlight the plight of elephants in Kenya & East Africa.

WALKED For 31 days

Friends of Karura Forest

The Foundation had partnered with 'Friends of Karura' and 'Nairobi Greenline Project' since their creation, in order to plant trees in both the Karura forest and Nairobi National park in an effort to curb urban encroachment.

The Friends of Karura is a Community Forest Association which aims to protect Nairobi's largest green area, the forest, for future generations

The Foundation's commitment to protecting and conserving the environment is core and to date, the Foundation has successfully planted over 500,000 trees.

From left, Professor Karanja Njoroge with Ashok Shah - Apollo Group CEO at the ceremony where APA received their Friends of Karura membership certification.

PLANTED Over 500,000 trees

HAPPINESS IS...

PEACE OF MIND FOR YOUR HOME IS SECURE

DOMESTIC PACKAGE


HAPPINESS IS...
INSURING YOUR FUTURE.
MOTOR INSURANCE

DIRECTOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

The directors submit their report together with the audited financial statements for the year ended 31 December 2021, which disclose the state of financial affairs of APA Insurance Limited (the 'Company').

Incorporation

The Company is incorporated in Kenya under the Companies Act as a private Company limited by shares, and is domiciled in Kenya. The address and the registered office is set out in page 4.

The Company has investment in the following associated company;

Reliance Insurance Company (Tanzania) Limited, incorporated in Tanzania as a private company limited by shares and is domiciled in Tanzania

Business review

The principal activity of the Company is the transaction of general insurance business.

The key risk that the Company faces is insurance risk which arises from the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim.

Summary results

	2021 Shs' 000	2020 Shs' 000
Gross earned premium	10,277,549	9,246,715
Profit for the year	552,668	463,838
Total comprehensive income attributable to shareholders	565,208	479,288
Return on equity (%)	11.7%	9.3%
Capital adequacy ratio - CAR (%)	292%	267%

Dividend

Profit for the year of Shs 552,668,000 (2020: Shs 463,838,000) has been added to retained earnings.
The directors do not recommend payment of dividend in respect of the year (2020: Shs 850,000,000).

Directors

The directors who held office during the year and to the date of this report are set out on page 4.

Disclosure to Auditors

The directors confirm that with respect to each director at the time of approval of this report:

(a) there was, as far as each director is aware, no relevant audit information of which the Company's auditor is unaware; and

(b) each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Terms of Appointment of Auditors

The independent auditors Deloitte & Touche LLP, were appointed auditors during the year and have expressed their willingness to continue in the office accordance with section 719 of the Kenya companies Act,2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

By order of the Board

P. H. Shah
Secretary
17 March 2022

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 2021

The Kenyan Companies Act, 2015, requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company at the end of the financial year and its financial performance for the year then ended. It also requires the directors to ensure that the Company maintains proper accounting records that are sufficient to show and explain the transactions of the Company and disclose, with reasonable accuracy, at any time the financial position of the Company.

The directors are also responsible for safeguarding the assets of the Company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
ii. selecting suitable accounting policies and then apply them consistently; and
iii. Making judgements and accounting estimates that are reasonable in the circumstances

Having made an assessment of the Company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the board of directors on 17 March 2022 and signed on its behalf by:

Daniel M. Ndonye
Chairman

Ashok Shah

Ashok Shah
Director

REPORT OF THE CONSULTING ACTUARY TO THE SHAREHOLDERS OF APA INSURANCE LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2021

I have conducted an actuarial valuation of the insurer's insurance liabilities as at 31 December 2021.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Insurance Act, Cap. 487 of the Laws of Kenya. Those principles require that prudent principles for future outgo under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies.

In completing the actuarial valuation, I have relied upon the audited financial statements of the Company.

In my opinion, the insurer's insurance liabilities of the Company were adequate as at 31 December 2021.

Name of Actuary James I. O. Olubayi

Fellow of the Institute of Actuaries (FIA)

17 March 2022

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF APA INSURANCE LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2021

Report on the audit of financial statements

Opinion

We have audited the accompanying financial statements of APA Insurance Limited (the "Company"), set out on pages 38 to 86, which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with other ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The financial statements of APA Insurance Limited for the year ended 31st December 2020 were audited by another auditor who expressed an unmodified opinion on those statements on 16 March 2021.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF APA INSURANCE LIMITED *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

Report on the audit of financial statements (continued)

Key Audit Matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of Insurance Contract liabilities Significant judgement is required by the directors in determining the insurance contract liabilities and, for the purposes of our audit, we identified the valuation of insurance contract liabilities relating to determining claims incurred but not reported (IBNR) as representing a key audit matter due to the significance of the balance to the financial statements as a whole, combined with the judgement and estimation uncertainty associated with determining the liabilities. The determination of future contractual cash flows in relation to reported claims and claims incurred but not reported involves a significant estimation process. There are several sources of uncertainty that are considered in the estimate of the liability that the Company will ultimately pay for such claims. Estimates of the liability for reported claims are determined on the basis of the best information available at the time the records for the year are closed. Claims incurred but not reported (IBNR) are determined on the basis of prevailing claims reported and settlement patterns. Further details on the process used to estimate IBNR are set out in note 27 of the financial statements. Disclosures on the critical accounting estimates and judgements applied in estimating insurance contract liabilities are set out in note 4 to the financial statements.	We evaluated the appropriateness of the relevant controls directors' have implemented over the determination of insurance contract liabilities. Additionally, our procedures included challenging the directors on the suitability of the approach and methodology adopted by the actuaries to ensure these are consistent with the requirements of International Financial Reporting Standards (IFRS) and industry norms. Procedures performed included: • assessing the competence, capabilities and objectivity of the Company's external actuaries including reviewing their terms of engagement to determine that there were no matters that affected their independence and objectivity or imposed scope limitations upon them; • evaluating the consistency of the approach and methodology adopted by the actuaries in line with IFRS, local regulation and industry norms; • involving our in-house actuarial experts in evaluating key assumptions and models adopted in the determination of insurance contract liabilities; and • reviewing the data used in the computations of reserves for accuracy through a comparison to reported values and testing a selection of data inputs underpinning the insurance contract liabilities valuation to assess the accuracy, reliability and completeness thereof. Based on our procedures, we found that the assumptions and methodology used for the calculation of the insurance contract liabilities were reasonable and in line with local regulatory requirements and industry norms. The disclosures pertaining to the insurance contract liabilities were found to be appropriate and comprehensive in the financial statements.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF APA INSURANCE LIMITED *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

Report on the audit of financial statements (continued)

Other information

The directors are responsible for the other information, which comprise the information included in the Chairman's statement,Chief executive officer's statement,Financial highlights, Corporate governance statement,Corporate social responsibility statement and Directors' report. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act 2015, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF APA INSURANCE LIMITED *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

Report on the audit of financial statements (continued)

Auditor's responsibilities for the audit of the financial statements (Continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other matters prescribed by the Kenyan Company's Act, 2015

In our opinion, the information given in the report of the directors on pages 30 is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Fredrick Okwiri – P/No 1699.

For and on behalf of Deloitte & Touche LLP

Deloitte & Touche LLP

Certified Public Accountants (Kenya)
Nairobi

17 March 2022

HAPPINESS IS...

ENSURING YOUR HEALTH COMES FIRST

FAMILY HEALTH PLANS

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 Shs'000	2020 Shs'000
Gross written premium		**10,626,654**	**9,508,915**
Gross earned premium	5	10,277,549	9,246,715
Less reinsurance premium ceded		(3,723,129)	(2,792,437)
Net earned premium		6,554,420	6,454,278
Investment income	6	891,413	657,743
Commissions earned		935,622	647,526
Other income	7	26,861	9,931
Total income		8,408,316	7,769,478
Net incurred claims	8	(4,719,749)	(4,162,049)
Operating and other expenses	9(a)	(1,564,244)	(1,766,537)
Impairment write back / (loss) on financial assets	9(b)	60,406	(68,939)
Commissions payable		(1,280,252)	(1,095,748)
Profit from operating activities		904,477	676,205
Share of (loss) / profit of associate	19(a)	(16,094)	4,085
Operating profit		888,383	680,290
Finance cost	11	(47,010)	(52,193)
Profit before taxation		841,373	628,097
Taxation	12(a)	(288,705)	(164,259)
Profit for the year		**552,668**	**463,838**
Other comprehensive income, net of tax:			
Items that may not subsequently be reclassified to profit or loss			
Change in fair value of FVTOCI held assets :			
- Unquoted equity investments	19(b)	1,363	1,891
Items that may subsequently be reclassified to profit or loss			
Share of other comprehensive income of associate	19(a)	1,572	(1,314)
Exchange differences on translation of foreign operations	19(a)	10,193	15,587
Deferred tax on other comprehensive income	35	(588)	(714)
Other comprehensive gain for the year, net of tax		**12,540**	**15,450**
Total comprehensive income for the year attributable to the owners of the Company		**565,208**	**479,288**
		Shs	Shs
Earnings per share – basic and diluted	13	**44.21**	**37.11**

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

ASSETS	Notes	2021 Shs'000	2020 Shs'000
Motor vehicles and equipment	15	54,634	65,499
Intangible assets	16	167,247	149,854
Right-of-use assets	17	171,723	240,922
Investment properties	18	1,040,000	1,020,000
Investment in associates	19(a)	242,442	246,771
Equity investments - at fair value through other comprehensive income	19(b)	14,316	12,953
Equity investments - at fair value through profit or loss	20	1,184,933	690,104
Investments in unit trusts		36,087	33,276
Taxation recoverable	12(c)	48,871	75,940
Deferred taxation	35	286,651	420,073
Loans receivable	21	96,678	100,604
Receivables arising out of reinsurance arrangements		13,382	360,534
Receivables arising out of direct insurance arrangements		504,788	698,169
Reinsurers' share of insurance liabilities and reserves	22	2,696,538	2,145,588
Deferred acquisition costs	23	147,618	156,038
Other receivables	24	62,388	65,129
Government securities - at amortised cost	25(a)	1,739,898	1,478,393
- at fair value through profit or loss	25(b)	5,237,136	5,963,048
Deposits with financial institutions	26	1,566,182	1,196,411
Commercial paper and corporate bonds	27	26,062	99,505
Cash and bank balances	37(b)	103,857	75,725
Total assets		**15,441,431**	**15,294,536**
EQUITY AND LIABILITIES			
Equity			
Share capital	28	1,250,000	1,250,000
Other reserves	29(a)	237,566	235,219
Translation reserve	29(b)	(15,351)	(25,544)
Retained earnings	30	3,100,133	2,547,465
Proposed dividends	14	-	850,000
Total equity		**4,572,348**	**4,857,140**
Liabilities			
Insurance contract liabilities	31(a)	6,265,220	5,849,687
Provision for unearned premium	32	3,919,197	3,570,091
Payables arising from reinsurance arrangements		88,096	277,251
Lease liabilities	33	254,156	307,822
Other payables	34	309,153	386,597
Bank overdraft	37(b)	33,261	45,948
Total liabilities		**10,869,083**	**10,437,396**
Total equity and liabilities		**15,441,431**	**15,294,536**

The financial statements on pages 38-86 were authorised for issue by the Board of Directors on 17 March 2022 and signed on its behalf by:

Daniel M. Ndonye
Chairman

Ashok Shah
Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital Shs'000	FVOCI reserve Shs'000	Translation reserve Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
At 1 January 2020	**1,250,000**	**235,356**	**(41,131)**	**2,933,627**	**700,000**	**5,077,852**
Changes in equity 2020:						
Profit for the year	-	-		463,838		463,838
Other comprehensive income for the year	-	(137)	15,587	-	-	15,450
Transactions with owners:						
Dividends						
- 2019 final dividend paid	-	-	-	-	(700,000)	(700,000)
- Proposed final for 2020	-	-	-	(850,000)	850,000	-
At 31 December 2020	**1,250,000**	**235,219**	**(25,544)**	**2,547,465**	**850,000**	**4,857,140**
At 1 January 2021	**1,250,000**	**235,219**	**(25,544)**	**2,547,465**	**850,000**	**4,857,140**
Changes in equity 2021:						
Profit for the year	-	-	-	552,668	-	552,668
Other comprehensive income for the year	-	2,347	10,193	-	-	12,540
Transactions with owners:						
Dividends						
- 2020 final dividend paid	-	-	-	-	(850,000)	(850,000)
At 31 December 2021	**1,250,000**	**237,566**	**(15,351)**	**3,100,133**	**-**	**4,572,348**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

		2021	2020
Cash flows from operating activities	**Notes**	**Shs '000**	**Shs '000**
Cash generated from operations	37(a)	704,406	195,994
Interest received	6	803,515	687,146
Interest paid on lease liabilities	11	47,010	52,193
Income tax paid	12(c)	(128,802)	(169,890)
Net cash generated from operating activities		**1,426,129**	**765,443**
Cash flows from investing activities			
Purchase of property and equipment	15	(14,601)	(16,314)
Additions to intangible assets	16	(70,341)	(158,004)
Net proceeds from sale of investment in associate		-	456,518
Purchase of quoted shares	20	(612,893)	(224,442)
Proceeds from sale of quoted shares		186,263	706,157
Loans advanced	21	(5,585)	(24,146)
Loan repayments received	21	9,461	41,343
Net purchase of government securities		371,370	(1,005,816)
Net investment deposits maturing after 90 days		250,710	(226,300)
Net redemption/purchase of commercial bonds	27	73,712	124,558
Net cash generated from / (used in) investing activities		188,096	(326,446)
Cash flows from financing activities			
Payments of principal portion of the lease liability	33	(105,207)	(90,628)
Dividends paid	14	(850,000)	(700,000)
Net cash used in financing activities		**(955,207)**	**(790,628)**
Net increase / (decrease) in cash and cash equivalents		**659,018**	**(351,631)**
Movement in cash and cash equivalents			
At 1 January		410,484	762,115
Increase /(decrease) in the year		659,018	(351,631)
At 31 December	37(b)	**1,069,502**	**410,484**

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

APA Insurance Limited ("the Company") is in the business of general insurance and is incorporated in Kenya under the Companies Act as a private limited liability company. The Company is domiciled in Kenya and the address of its registered office is disclosed below:

APA Insurance Limited
Apollo Centre,
07 Ring Road, Parklands,
P. O. Box 30065-00100,
Nairobi

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The measurement basis applied is the historical cost basis, except as further described in the notes below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

b) Changes in accounting policy and disclosures

i) Relevant new and amended standards adopted by the Company

Impact of the initial application of Covid-19-Related Rent Concessions beyond 30 June 2021—Amendments to IFRS 16

In the prior year, the Group adopted Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provided practical relief to lessees in accounting for rent concessions occurring as a direct consequence of Covid-19, by introducing a practical expedient to IFRS 16. This practical expedient was available to rent concessions for which any reduction in lease payments affected payments originally due on or before 30 June 2021.

In March 2021, the Board issued Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16) that extends the practical expedient to apply to reduction in lease payments originally due on or before 30 June 2022.

In the current financial year, the Company has not applied the amendment to IFRS 16 (as issued by the Board in May 2021) in advance of its effective date.

The practical expedient permits a lessee to elect not to assess whether a Covid-19 related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the Covid-19-related rent concession applying IFRS 16 as if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of Covid-19 and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change
- Any reduction in lease payments affects only payments originally due on or before 30 June 2022 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2022 and increased lease payments that extend beyond 30 June 2022)
- There is no substantive change to other terms and conditions of the lease
- Impact on accounting for changes in lease payments applying the exemption

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Changes in accounting policy and disclosures (continued)

i) Relevant new and amended standards adopted by the Company (continued)

The Company has not applied the practical expedient retrospectively to all rent concessions that became eligible for the practical expedient as a result of the March 2021 amendment. The amendments would have allowed the Company not to restate prior period figures, and the difference arising on initial application of the March 2021 amendment would have been recognised in the opening balance of retained earnings at 1 January 2021.

The amendments are not applicable to the Company in the current year.

ii) New standards and interpretations not yet adopted by the Company

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective

New and Amendments to standards	*Effective for annual periods beginning on or after*
IFRS 17 – insurance contracts	Annual periods beginning on or after 1 January 2023
Amendments to IAS 10 and IAS 28 *Sale or Contribution of Assets between an investor and its Associate or Joint Venture*	Yet to be set, however earlier application permitted
Amendments to IAS 1- *Classification of Liabilities as Current or Non-current*	Annual periods beginning on or after 1 January 2023
Amendments to IFRS 3 - *Reference to the Conceptual Framework*	Annual periods beginning on or after 1 January 2022
Amendments to IFRS 16 *Property, Plant and Equipment—Proceeds before Intended Use*	Annual periods beginning on or after 1 January 2022
Amendments to IAS 37 - *Onerous Contracts - Cost of Fulfilling a Contract*	Annual periods beginning on or after 1 January 2022
Annual Improvements to IFRS	Annual periods beginning on or after 1 January 2022
Standards 2018-2020 Cycle - Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture	
Amendments to IAS 1 and IFRS	Annual periods beginning on or after 1 January 2023
Practice Statement 2 - *Disclosure of Accounting Policies*	
Amendments to IAS 8 - *Definition of Accounting Estimates*	Annual periods beginning on or after 1 January 2023
Amendments to IAS 12 - *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	Annual periods beginning on or after 1 January 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Changes in accounting policy and disclosures (continued)

ii) New standards and interpretations not yet adopted by the Company (continued)

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Society in future periods

IFRS 17 Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

In June 2020, the IASB issued Amendments to IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 was published. The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023. At the same time, the IASB issued extension of the temporary exemption from applying IFRS 9 (Amendments to IFRS 4) that extends the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after 1 January 2023.

IFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the Board; however, earlier application of the amendments is permitted.

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Changes in accounting policy and disclosures (continued)

ii) New standards and interpretations not yet adopted by the Company (continued)

Amendments to IFRS 3 business combinations – Reference to the Conceptual Framework

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

Amendments to IAS 16 – Property, Plant and Equipment—Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes. If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Amendments to IAS 37 – Onerous Contracts—Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Changes in accounting policy and disclosures (continued)

ii) New standards and interpretations not yet adopted by the Company (continued)

Amendments to IAS 37 – Onerous Contracts—Cost of Fulfilling a Contract (continued)

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Annual Improvements to IFRS Standards 2018-2020

The Annual Improvements include amendments to four Standards.

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16(a).

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

IFRS 9 Financial Instruments

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

IFRS 16 Leases

The amendment removes the illustration of the reimbursement of leasehold improvements.
As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

IAS 41 Agriculture

The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pre-tax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

The amendment is applied prospectively, i.e. for fair value measurements on or after the date an entity initially applies the amendment.

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Changes in accounting policy and disclosures (continued)

ii) New standards and interpretations not yet adopted by the Company (continued)

Amendments to IAS 1 *Presentation of Financial Statements and IFRS Practice Statement 2* *Making Materiality Judgements—Disclosure of Accounting Policies*

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

Amendments to IAS 8—Definition of Accounting Estimates

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The definition of a change in accounting estimates was deleted. However, the Board retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors

The Board added two examples (Examples 4-5) to the Guidance on implementing IAS 8, which accompanies the Standard. The Board has deleted one example (Example 3) as it could cause confusion in light of the amendments.

The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.

iii) Early adoption of standards

The Company did not early-adopt any new or amended standards in 2021.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Investments in associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Company's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Company's share of post-acquisition profit or loss is recognised in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment.

When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/ (loss) of associates in the statement of profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Company and its associate are recognised in the Company's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company. Dilution gains and losses arising in investments in associates are recognised in the statement of profit or loss.

d) Income recognition

(i) Premium income

Premium income is recognised on assumption of risks, and includes estimates of premium due but not yet received less an allowance for unearned premium. Unearned premium represents the proportion of the premium written in periods up to the accounting date that relate to the unexpired terms of policies in force at the reporting date, and is calculated using the 1/365th method on written premium.

(ii) Commission income

Commissions receivable are recognised as income in the period in which they are earned.

(iii) Investment income

Investment income is stated net of investment expenses. Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.
Dividends receivable are recognised as income in the period in which the right to receive payment is established. Rental income from operating leases is recognised on a straight line basis over the terms of the leases.

e) Claims incurred

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years.

Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the reporting date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed, and include provisions for claims incurred but not reported ("IBNR"). Outstanding claims are not discounted.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Reinsurance

The Company assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as income in the same manner as they would be if the reinsurance were considered direct business. Premiums ceded and claims reimbursed are presented on a gross basis in profit and loss and statement of financial position as appropriate.

Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recognised in the profit or loss.

g) Receivables arising out of direct insurance arrangements

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recognised in profit or loss.

h) Deferred acquisition costs

Deferred acquisition costs represent a proportion of acquisition costs that relate to policies that are in force after the year end. A proportion of commission payable is deferred and amortised over the period in which the related premiums are earned.

i) Motor vehicles and equipment

All items of motor vehicles and equipment are initially recorded at cost and subsequently stated at historical cost less any accumulated depreciation.

Depreciation is calculated on motor vehicles and equipment on the straight line basis to write down the cost of each asset, to its residual value over its estimated useful life as follows:

Furniture, fixtures and fittings and office equipment	8 years
Motor vehicles	4 years
Computer equipment	3 years

Assets' residual values and their estimated useful lives are reviewed at the reporting date and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of motor vehicles and equipment are determined by comparing the proceeds with their carrying amounts and are recognised within 'Other gains / (losses)' in the income statement.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Intangible assets

Intangible assets comprise of acquired intangible assets and internally generated intangible assets.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally- generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Amortisation is calculated to write off the cost of intangible assets on a straight line basis over their estimated useful life of 5 years.

k) Investment properties

Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation. They are carried at fair value, determined annually by independent external valuers. Fair value is based on active market prices as adjusted, if necessary, for any difference in the nature, condition or location of the specific asset.

Investment properties are not subject to depreciation. Changes in their carrying amounts between the reporting dates are dealt with through the profit or loss.

Upon disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss for the year.

l) Financial assets

The Company classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (through other comprehensive income or through profit or loss) and,
- Those to be measured at amortised cost,

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cashflows.

For assets measured at fair value, gains and losses will be recorded in profit or loss. For investments in unquoted equity instruments that are not held for trading, the Company has made an irrevocable election at the time of initial recognition to account for them at fair value through other comprehensive income (FVOCI).

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Financial assets (continued)

i) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

ii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Company classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/ (losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- **FVTPL:** Assets that do not meet the criteria for amortised cost are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss.

Equity instruments

The Company subsequently measures quoted equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other gains/ (losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

iii) Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This includes listed equity securities and quoted debt instruments on major exchanges (NSE). The quoted market price used for financial assets held by the Company is the current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Financial assets (continued)

iii) Determination of fair value (continued)

For example, a market is inactive when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the dates of the statement of financial position.

Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the Company at the end of the reporting period during which the change occurred.

iv) Impairment

The Company assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

No impairment loss is recognised on equity investments and financial assets measured at FVTPL.
The Company recognises loss allowance at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Company will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- Debt instruments that are determined to have low credit risk at the reporting date. The Company will consider a debt instrument to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment-grade’ and investments in Government securities; and
- Other financial instruments (other than trade receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for receivables arising from insurance arrangements and other receivables will always be measured at an amount equal to lifetime ECLs. The impairment requirements of IFRS 9 require management judgement, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Financial assets (continued)

iv) Impairment (continued)

Measurement of expected credit losses

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- Financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive;
- Financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;

An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. The following are examples of such events:

i) Significant financial difficulty of the issuer or the borrower;
ii) A breach of contract - e.g. a default or past-due event;
iii) A lender having granted a concession to the borrower - for economic or contractual reasons relating to the borrower's financial difficulty - that the lender would not otherwise consider;
iv) It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
v) The disappearance of an active market for that financial asset because of financial difficulties; or
vi) The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

Expected credit losses

Expected credit losses are computed as a product of the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD).
ECL = PD x LGD x EAD

In applying the IFRS 9 impairment requirements, the Company follows the simplified approach method.

Definition of default

The Company will consider a financial asset to be in default when:

- The counterparty or borrower is unlikely to pay their credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- The counterparty or borrower is more than 180 days past due on any material credit obligation to the Company. This will be consistent with the rebuttable criteria set out by IFRS 9 and existing practice of the Company; or
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

When determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company's historical experience, expert credit assessment and forward-looking information.

The Company primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Financial assets (continued)

iv) Impairment (continued)

Definition of default (continued)

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month and lifetime ECL measurements

Measurement of ECL

The key inputs into the measurement of ECL are the term structures of the following variables:

- Probability of Default;
- Loss given default (LGD); and
- Exposure at default (EAD).

To determine lifetime and 12-month PDs, the Company uses the PD tables supplied by S&P based on the default history of obligors with the same credit rating. The Company adopts the same approach for unrated investments by mapping its internal risk grades to the equivalent external credit ratings. The PDs are recalibrated based on current bond yields and CDS prices, and adjusted to reflect forward-looking information. Changes in the rating for a counterparty or exposure lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

For loans secured by mortgage property, loan-to-value ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor. EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is its gross carrying amount. When ECL are measured using parameters based on collective modelling, a significant input into the measurement of ECL is the external benchmark information that the Company uses to derive the default rates of its portfolios. This includes the PDs provided in the S&P default study.

(m) Financial liabilities

In both the current period and prior period, financial liabilities are classified and subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and other short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

(o) Translation of foreign currencies

The financial statements are presented in Kenya Shillings (Shs) rounded to the nearest thousand, which is the Company's functional and reporting currency. In preparing the financial statements, transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

(p) Leases

The Company as a lessee

For any short term leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease and variable lease payments;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.
The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever there are any changes in lease terms. The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

The Company as lessor

Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Leases (continued)

The Company as lessor (continued)

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, the Company applies IFRS 15 to allocate the consideration under the contract to each component.

(q) Employee entitlements

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date. The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense in profit or loss.

(r) Retirement benefit obligations

The Company operates a defined contribution scheme for its employees. The assets of the scheme are held in separate trustee administered fund, which is funded from contributions from both the Company and employees. Contributions are determined by the rules of the scheme. The Company also contributes to the statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions to this scheme are determined by local statute. The Company's obligations to these schemes are charged to profit or loss as they fall due.

(s) Share capital

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received over and above the par value of the shares issued are classified as 'share premium' in equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Shares are classified as equity when there is no obligation to transfer cash or other assets.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Company's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key areas of judgment in applying the Company's accounting policies are dealt with as follows:

The ultimate liability arising from claims made under insurance contracts

The main assumption underlying techniques applied in the estimation of this liability is that the Company's past claims experience can be used to project future claims development and hence, ultimate claims costs.

As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3. CRITICAL ACCOUNTING JUDGEMENTS & KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

The ultimate liability arising from claims made under insurance contracts (continues)

Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims' inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. A margin for adverse deviation may also be included in the liability valuation.

Measurement of expected credit losses

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVPL is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).
A number of significant judgements are also required in applying the accounting requirement for measuring ECL, such as

- Determining criteria for significant increase in credit risk;
- Choosing the appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL;
- Determining the relevant period of exposure to credit risk when measuring ECL for credit cards and revolving credit facilities; and
- Determining the appropriate business models and assessing the "solely payments of principal and interest (SPPI)" requirements for financial assets.

An increase/decrease of 5 percentage points in factors used in computation of ECLs would result in additional/reduction in loss allowance for the period of Shs 4.8 million.

Valuation of investment properties

Estimates are made in determining valuations of investment properties. The management uses experts in determination of the values to adopt. In performing the valuation, the valuer uses discounted cash flow projections which incorporate assumptions around the continued demand for rental space, sustainability of growth in rent rates as well as makes reference to recent sales. The independent valuers also use the highest and best use principle in determining the value of Investment property. The change in these assumptions could result in a significant change in the carrying value of investment property.

Management monitors the investment property market and economic conditions that may lead to significant change in fair value and conducts a formal and independent property valuation every year and adjusts the recorded fair values accordingly for any significant change.

Determining incremental borrowing rate used in the discounting of lease liabilities

The interest rate implicit in the lease is basically the internal rate of return on all payments or receipts related to the lease in question. For both the lessee and the lessor the interest rate implicit in the lease is the discount rate at which:

i) The sum of the present value of
   a) the lease payments and
   b) the unguaranteed residual value equals

ii) The sum of
   a) the fair value of the underlying asset and
   b) any initial direct costs of the lessor.

The interest rate implicit in the lease depends on the initial fair value of the underlying asset, and the lessor's expectation of the residual value of the asset at the end of the lease. This information is mostly with the lessor.

Lack of information available to the Company, makes it difficult to determine the interest rate implicit in the lease because the Interest rate implicit in the lease is a Company-specific measure – specific to the lessor. Notwithstanding the Company has adopted an incremental borrowing rate.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Determining incremental borrowing rate used in the discounting of lease liabilities (continued)

The lessee's incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Given the above factors and that the Company has no recent borrowing experience, an interest assumption based at 12.5% has been adopted as its incremental borrowing rate.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a variety of risks, including insurance risk, financial risk and credit risk. These risks result in changes in property values, debt and equity market prices, foreign currency exchange rates and interest rates. The Company's overall risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place, which help manage liquidity, and seek to maximise return within an acceptable level of interest rate risk.

The disclosures below summarise the way the Company manages key risks:

4.1 Insurance risk

The risk under any one insurance contract arises from the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits payable are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits payable will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical, local and type of industry covered.

Short-term insurance contracts

The following table discloses the concentration of short-term insurance risks analysed by the sector in which contract holders operate and by the maximum insured loss limit included in the terms of the policy.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4.1 Insurance risk (continued)

4.1.1 Frequency and severity of claims

Year ended 31 December 2021

		Maximum Insured Loss				
		0-10m	10m-50m	50m-100m	Over 200m	Total
Industry Sector		Shs Mn	Shs Mn	Shs Mn	Shs Mn	Shs Mn
Manufacturing	Gross	455	119	52	653	**1,279**
	Net	358	81	37	207	**684**
Service	Gross	1,158	731	372	2,047	**4,307**
	Net	947	475	264	782	**2,468**
Construction	Gross	128	71	28	41	**269**
	Net	106	48	23	6	**183**
Governmental	Gross	221	44	20	124	**409**
	Net	183	29	15	11	**238**
Others	Gross	2,966	418	210	770	**4,364**
	Net	2,428	269	135	320	**3,151**
Total	**Gross**	**4,928**	**1,384**	**681**	**3,635**	**10,627**
	Net	**4,021**	**902**	**475**	**1,326**	**6,724**

The concentration by sector or maximum insured loss at the end of the year is broadly consistent with the prior year.

Year ended 31 December 2020

		Maximum Insured Loss				
		0-10m	10m-50m	50m-100m	Over 200m	Total
Industry Sector		Shs Mn	Shs Mn	Shs Mn	Shs Mn	Shs Mn
Manufacturing	Gross	407	107	46	583	**1,143**
	Net	167	38	17	97	**319**
Service	Gross	1,036	654	333	1,831	**3,854**
	Net	1070	660	172	1003	**2,905**
Construction	Gross	115	64	25	37	**241**
	Net	50	22	11	3	**86**
Governmental	Gross	197	40	18	111	**366**
	Net	85	14	7	5	**111**
Others	Gross	2,654	374	188	689	**3,905**
	Net	2,270	252	126	298	**2,946**
Total	**Gross**	**2,771**	**778**	**383**	**2,044**	**9,509**
	Net	**2,617**	**587**	**309**	**863**	**6,367**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

4.2 Financial risk

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. It manages these positions with an Asset Liability Management (ALM) framework that has been developed to achieve investment returns in excess of obligations under insurance contracts. The Company produces regular reports at portfolio and asset and liability class levels that are circulated to the Company's key management personnel. The principal technique of the Company's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders. The Company's ALM is also integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities (in particular, borrowings and investments in foreign operations). The Company does not use hedge accounting. The Company has not changed the processes used to manage its risks from previous periods. The notes below explain how financial risks are managed using the categories utilised in the company's ALM framework.

(a) Market risk

(i) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities and deposits with financial institutions. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For financial instruments and insurance contracts described in this note, the sensitivity is solely associated with the former, as the carrying amounts of the latter are not directly affected by changes in market risks.

The Company's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to a parallel movement of plus 5 percentage points in all yield curves of financial assets and financial liabilities. These particular exposures illustrate the Company's overall exposure to interest rate sensitivities included in the Company's ALM framework and its impact on the Company's profit or loss.

An increase/decrease of 5 percentage points in interest yields would result in additional profit/loss for the period of Shs 433 million (2020: Shs 442 million).

(ii) Price risk

The Company is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets available for sale. Exposures to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Investments held are listed and traded on the Nairobi Securities Exchange.

Investment management meetings are held monthly. At these meetings, senior investment managers meet to discuss investment return and concentration of the equity investments. Listed equity securities represent 82% (2020: 73%) of total equity investments. If equity market indices had increased/decreased by 5%, with all other variables held constant, and all the Company's equity investments moving according to the historical correlation with the index, equity would have increased/decreased by Shs 59 million (2020: Shs 35 million).

4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

4.2 Financial risk (continued)

(a) Market risk (continued)

(iii) Foreign exchange risk

Foreign currency exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the Company's functional currency. Currently, management believes that there is minimal risk of significant losses due to exchange rate fluctuations.

(b) Credit risk and expected credit losses

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets, and is managed on a company-wide basis.

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- amounts due from government securities
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries;
- amounts due from corporate bond issuers;
- cash and deposits held with banks
- rental receivables and
- loans receivables

The Company manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or companies of counterparties and to geographical and industry segments. Such risks are subject to regular reviews. Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on annual basis by reviewing their financial strength prior to finalisation of annual contracts.

In addition, management assesses the credit worthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. The exposure to individual counterparties is also managed through other mechanisms such as the right of offset where counterparties are both debtors and creditors of the Company. Management information reported to the directors include details of provisions for impairment on receivables and subsequent write offs. Exposures to individual policyholders and groups of policyholders are collected within the on-going monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis is carried out by the management.

In assessing whether the credit risk on a financial asset has increased significantly, the Company compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the Company considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort.

If the Company does not have reasonable and supportable information to identify significant increases in credit risk and/ or to measure lifetime credit losses when there has been a significant increase in credit risk on an individual instrument basis, lifetime expected credit losses are recognised on a collective basis.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4.2 Financial risk (continued)

(b) Credit risk and expected credit losses (continued)

The gross carrying amount of financial assets with exposure to credit risk at the 31st December 2021 was as follows;

	Gross carrying amount Shs '000	Expected credit loss Shs '000	Exposure to credit risk Shs '000
Government securities	6,977,817	(783)	6,977,034
Mortgage loans	68,973	(35)	68,938
Other loans	27,755	(15)	27,740
Insurance receivables	1,259,653	(754,865)	504,788
Reinsurance receivables	170,314	(156,932)	13,382
Other receivables	87,659	(25,271)	62,388
Deposits with financial institutions	1,568,144	(1,962)	1,566,182
Commercial papers and corporate bonds	96,728	(50)	96,678
Cash and bank balances	104,219	(362)	103,857
Total	**10,361,262**	**(940,275)**	**9,420,987**

The gross carrying amount of financial assets with exposure to credit risk at the 31st December 2020 was as follows;

	Gross carrying amount Shs '000	Expected credit loss Shs '000	Exposure to credit risk Shs '000
Government securities	7,442,107	(666)	7,441,441
Mortgage loans	72,392	(38)	72,354
Other loans	28,265	(15)	28,250
Insurance receivables	1,749,345	(1,051,176)	698,169
Reinsurance receivables	517,466	(156,932)	360,534
Other receivables	82,731	(17,602)	65,129
Deposits with financial institutions	1,200,654	(4,243)	1,196,411
Commercial papers and corporate bonds	99,774	(269)	99,505
Cash and bank balances	76,018	(293)	75,725
Total	**11,268,752**	**(1,231,234)**	**10,037,518**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

4.2 Financial risk (continued)

(b) Credit risk and expected credit losses (continued)

The impairment analysis of the insurance and reinsurance receivables at 31 December 2021 was as follows;

	Insurance receivables *(Expected credit losses)* Shs '000	Reinsurance receivables *(Incurred loss model)* Shs '000
At 1 January	1,051,176	156,932
Changes arising from loss allowance measured at an amount equal lifetime expected credit losses	22,336	-
Changes because of financial assets that were written off during the year	(318,647)	-
At 31 December	**754,865**	**156,932**

The impairment analysis of the insurance and reinsurance receivables as at 31 December 2020 was as follows;

	Insurance receivables *(Expected credit losses)* Shs '000	Reinsurance receivables *(Incurred loss model)* Shs '000
At 1 January	1,113,881	156,932
Changes arising from loss allowance measured at an amount equal lifetime expected credit losses	78,215	-
Changes because of financial assets that were written off during the year	(140,920)	-
At 31 December	**1,051,176**	**156,932**

(c) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the Company is the obligation to pay claims to policyholders as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. The board sets limit on the minimum proportion of maturing funds available to meet such calls and to cover anticipated liabilities and unexpected levels of demand.

The table below presents the cash flows arising on key assets and liabilities by their remaining contractual maturities (other than insurance contract liabilities which are based on expected maturities). The amounts disclosed are the contractual undiscounted cash flows.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4.2 Financial risk (continued)

(c) Liquidity risk (continued)

		Contractual cash flows (undiscounted)			
31 December 2021	**Total Amount**	**No stated Maturity**	**0-1 year**	**1-5 years**	**> 5 years**
Financial assets:	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Debt securities held to maturity:					
-Government bonds and treasury bills-fixed rate	2,060,037	-	259,370	1,578,667	222,000
-Commercial paper and corporate bonds	31,126	-	3,063	28,063	-
Government bonds - at FVTPL	6,584,114	-	627,659	2,357,201	3,599,254
Quoted equity securities- at FVTPL	1,184,933	1,184,933	-	-	-
Mortgage loans	96,386	-	7,414	7,414	81,558
Other loans	15,850	-	1,321	14,529	-
Insurance and reinsurance receivables	518,170	-	504,788	13,382	-
Deposits with financial institutions maturing after 90 days	998,906	-	998,906	-	-
Cash and cash equivalents (Note 37(b))	1,069,502	-	1,069,502	-	-
Total	**12,559,024**	**1,184,933**	**3,472,023**	**3,999,256**	**3,902,812**
Short term insurance liabilities:					
Insurance contracts	6,265,220	-	3,299,728	2,526,925	438,566
Less assets arising from reinsurance contracts	(1,346,757)	-	(709,303)	(543,181)	(94,273)
Lease liabilities	254,156	-	37,005	136,480	80,671
Total	**5,172,619**	**-**	**2,627,431**	**2,120,224**	**424,964**
Difference in contractual cash flows	**7,386,405**	**1,184,933**	**844,592**	**1,879,032**	**3,477,848**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4.2 Financial risk (continued)

(c) Liquidity risk (continued)

		Contractual cash flows (undiscounted)			
31 December 2020	**Total Amount**	**No stated Maturity**	**0-1 year**	**1-5 years**	**> 5 years**
Financial assets:	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Debt securities held to maturity:					
-Government bonds and treasury bills-fixed rate	2,021,654	-	314,550	1,092,852	614,252
-Commercial paper and corporate bonds	99,505		73,494	26,011	-
Government bonds – at FVTPL	9,552,934		390,989	2,385,403	6,776,542
Quoted equity securities- at FVTPL	690,104	690,104	-	-	-
Mortgage loans	200,947	-	7,801	39,004	154,142
Other loans	28,264	-	17,810	10,454	-
Insurance and reinsurance receivables	1,146,746	-	786,212	360,534	
Deposits with financial institutions maturing after 90 days	819,947	-	819,947	-	-
Cash and cash equivalents (Note 37(b))	410,484	-	410,484	-	-
Total	**14,970,585**	**690,104**	**2,821,287**	**3,914,258**	**7,544,936**
Short term insurance liabilities:		**-**			
Insurance contracts	5,849,687	-	3,080,878	2,359,330	409,479
Less assets arising from reinsurance contracts	(974,759)	-	(513,381)	(393,145)	(68,233)
Lease liabilities	307,822	-	64,360	227,037	16,425
Total	**5,182,750**	**-**	**2,631,857**	**2,193,222**	**357,671**
Difference in contractual cash flows	**9,787,835**	**690,104**	**189,430**	**1,721,036**	**7,187,265**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4.2 Financial risk (continued)

(d) Fair value hierarchy

The following table presents the Company's financial assets measured at fair value at 31 December 2021 and 31 December 2020

At 31 December 2021	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Fair value through profit or loss				
- Government securities FVTPL	5,237,136	-	-	5,237,136
- Equity investments FVTPL	1,184,933	-	-	1,184,933
- Investments in unit trusts	-	36,087	-	36,087
Fair value through other comprehensive income				
- Equity investments FVOCI	-	14,316	-	14,316
Total	**6,422,069**	**50,403**	**-**	**6,472,472**
At 31 December 2020				
Fair value through profit or loss				
- Government securities FVTPL	5,963,048	-	-	5,963,048
- Equity investments FVTPL	690,104	-	-	690,104
- Investments in unit trusts	-	33,276	-	33,276
Fair value through other comprehensive income				
- Equity investments FVOCI	-	12,953	-	12,953
Total	**6,653,152**	**46,229**	**-**	**6,699,381**

There were no transfers between levels 1 and 2 during the year.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4.2 Financial risk (continued)

(d) Fair value hierarchy

The table below sets out the Company's classification of each class of financial assets and liabilities and their fair values:

At 31 December 2021	FVTPL Shs'000	FVOCI Shs'000	Amortised cost Shs'000	Fair Values Shs'000
Assets				
Quoted equity securities	1,184,933	-	-	**1,184,933**
Investments in Unquoted equity	-	14,316	-	**14,316**
Investment in unit trusts	36,087	-	-	**36,087**
Investments in Government securities- FVTPL	5,237,136	-	-	**5,237,136**
Investments in Government securities- Amortised cost	-	-	1,740,681	**1,740,681**
Loans receivables	-	-	96,728	**96,728**
Insurance and reinsurance receivables	-	-	518,171	**518,171**
Reinsurer's share of insurance liabilities and reserves	-	-	2,696,538	**2,696,538**
Other receivables	-	-	62,388	**62,388**
Deposits with financial institutions	-	-	1,566,182	**1,566,182**
Commercial paper and bonds	-	-	26,062	**26,062**
Cash and bank balances	-	-	103,857	**103,857**
Total	**6,458,156**	**14,316**	**6,810,607**	**13,283,079**
Liabilities				
Insurance contract liabilities	-	-	6,265,220	**6,265,220**
Other payables	-	-	309,153	**309,153**
Bank overdraft	-	-	33,261	**33,261**
Payables arising from reinsurance arrangements	-	-	88,096	**88,096**
Total			**6,695,730**	**6,695,730**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

4.2 Financial risk (continued)

(d) Fair value hierarchy (continued)

At 31 December 2020	FVTPL Shs'000	FVOCI Shs'000	Amortised cost Shs'000	Fair Values Shs'000
Assets				
Quoted equity securities	690,104	-	-	**690,104**
Investments in Unquoted equity	-	12,953	-	**12,953**
Investment in unit trusts	33,276	-	-	**33,276**
Investments in Government securities- FVTPL	5,963,048	-	-	**5,963,048**
Investments in Government securities- Amortised cost	-	-	1,478,393	**1,478,393**
Loans receivables	-	-	100,604	**100,604**
Insurance and reinsurance receivables	-	-	1,058,703	**1,058,703**
Reinsurer's share of insurance liabilities and reserves	-	-	2,145,588	**2,145,588**
Other receivables	-	-	65,129	**65,129**
Deposits with financial institutions	-	-	1,196,411	**1,196,411**
Commercial paper and bonds	-	-	99,505	**99,505**
Cash and bank balances	-	-	75,725	**75,725**
Total	**6,686,428**	**12,953**	**6,220,058**	**12,919,439**
Liabilities				
Insurance contract liabilities	-	-	5,849,687	**5,849,687**
Other payables	-	-	386,597	**386,597**
Bank overdraft	-	-	45,948	**45,948**
Payables arising from reinsurance arrangements	-	-	277,251	**277,251**
Total	**-**	**-**	**6,559,483**	**6,559,483**

4.3 Capital management

The Company maintains an efficient capital structure consistent with the Company's risk profile and the regulatory and market requirements of its business.
The Company's objectives in managing its capital are:

- to match the profile of its assets and liabilities taking account of the risks inherent in the business;
- to maintain financial strength to support business growth;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets
- to allocate capital efficiently to support growth
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

An important aspect of the Company's overall capital management process is the setting of a target risk-adjusted rate of return which is aligned to performance objectives and ensures that the Company is focused on the creation of value for shareholders.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

4.3 Capital management (continued)

The Company has a number of sources of capital available to it and seeks to optimise its equity/debt structure in order to ensure that it can consistently maximise returns to shareholders. The Company considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital. The Company manages as capital, all items that are eligible to be treated as such for regulatory purposes.

The Company is regulated by the Insurance Regulatory Authority in Kenya. The new capital requirements (Risk Based Capital) were introduced in the Finance Act, 2015. Insurance companies are required to hold capital at the higher of:

i) Shs 600 million; or

ii) risk based capital determined by the Insurance Regulatory Authority (IRA) from time to time; or

iii) 20% of previous year's net earned premium.

The Company's Capital Adequacy Ratio position as at 31 December 2021 and 2020 is illustrated below

	2021 Shs'000	2020 Shs'000
Available Capital	3,779,663	3,931,469
Required Capital	1,292,263	1,471,624
Capital Adequacy ratio (%)	292%	267%
Required Capital Adequacy ratio (%)	180%	180%

5. GROSS EARNED PREMIUM

The Company underwrites general insurance business only. This has been analysed into several sub-classes of business based on the nature of the assumed risks as shown below:

	2021 Shs'000	2020 Shs'000
Personal accident and Medical	4,054,951	3,844,027
Motor	2,794,817	2,824,070
Fire	1,011,239	841,580
Workmen's compensation	833,357	468,780
Marine and transit	222,059	216,991
Theft	210,371	211,026
Engineering	209,095	176,670
Liability	161,587	140,216
Other	780,073	523,355
Total	**10,277,549**	**9,246,715**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

6. INVESTMENT INCOME

	2021 Shs'000	2020 Shs'000
Interest from government securities	692,831	573,024
Bank deposit interest	95,005	101,811
Loan interest receivable	15,679	12,311
Rental income from investment properties	54,504	47,491
Dividends receivable from equity investments	38,115	37,564
Realised gain from sale of equity investments at FVTPL	52,261	45,885
Realised gain from sale of government securities at FVTPL	19,860	50,296
Unrealised loss on revaluation of financial assets at FVTPL	(96,842)	(233,092)
Gain on sale of investment in associate	-	22,453
Fair value gain on investment properties (Note 18)	20,000	-
Total	**891,413**	**657,743**

7. OTHER INCOME

Kenya Motor Insurance Pool Surplus	11,389	-
Miscellaneous income	15,472	9,931
Total	**26,861**	**9,931**

8. NET INCURRED CLAIMS

	2021 Shs'000	2020 Shs'000
Motor	2,554,584	2,240,142
Personal accident and Medical	1,875,573	1,583,775
Fire	161,250	78,490
Marine and transit	65,645	60,859
Engineering	54,418	26,858
Theft	40,558	77,162
Workmen's compensation	37,870	27,104
Liability	9,971	(6,346)
Other	(80,120)	74,005
Total	**4,719,749**	**4,162,049**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

9(a) OPERATING AND OTHER EXPENSES

	2021 Shs'000	2020 Shs'000
Employee benefits (Note 10)	757,821	773,962
Marketing expenses	232,265	277,205
Advertisement and promotion costs	127,738	151,846
Premium levies	99,195	86,889
Auditors' remuneration	6,155	6,036
Directors emoluments – fees	8,305	8,711
- other	76,567	82,500
Depreciation (Note 15)	25,466	27,617
Amortisation (Note 16)	52,948	29,259
Impairment loss (Note 16)	-	56,105
Depreciation – Leases (Note 17)	69,199	74,885
Operating lease rentals – land and buildings	951	9,917
Repairs and maintenance expenditure	19,221	17,165
Policyholders compensation fund contributions	25,211	23,105
Printing and stationery	2,808	10,573
Telecommunications expenses	12,465	24,243
Travelling expenses	5,513	8,474
Consultancy and other professional expenses	21,539	91,443
Other	20,877	6,602
Total	**1,564,244**	**1,766,537**

9(b) NET CREDIT IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2021	2020
Impairment (write back) / loss on financial assets	**(60,406)**	**68,939**

10. EMPLOYEE BENEFITS

	2021 Shs'000	2020 Shs'000
The following are included in employee benefits expense:		
- salaries and wages	660,114	687,377
- group life premium	6,560	7,229
- medical expenses	43,395	32,094
- other retirement benefit costs	46,871	46,374
- social security benefit costs	881	888
Total	**757,821**	**773,962**

The Company had 373 employees as at 31 December 2021 (2020:370)

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11. FINANCE COSTS – LEASES

	2021 Shs'000	2020 Shs'000
Interest on lease liabilities (Note 33)	**47,010**	**52,193**

12. TAXATION

		2021 Shs'000	2020 Shs'000
(a)	**Taxation charge:**		
	Current tax charge	155,871	143,895
	Deferred taxation charge (Note 35)	132,834	20,364
	Total	**288,705**	**164,259**
(b)	Reconciliation of expected tax based on accounting profit to taxation charge		
	Profit before taxation	841,373	628,097
	Tax calculated at tax rate of 30% (2020: 25%)	252,412	157,024
	Tax effect of income not subject to tax	(131,401)	(129,313)
	Tax effect of expenses not tax deductible	167,694	136,548
	Taxation charge	**288,705**	**164,259**
(c)	**Taxation recoverable:**		
	At 1 January	(75,940)	(49,945)
	Current tax charge for the year (Note 12(a))	155,871	143,895
	Paid in the year	(128,802)	(169,890)
	At 31 December	**(48,871)**	**(75,940)**

13. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year

	2021 Shs'000	2020 Shs'000
Profit for the year (Shs'000)	552,668	463,838
Weighted average number of ordinary shares in issue (thousands)	12,500	12,500
	Shs	**Shs**
Earnings per share (Shs) – basic and diluted	**44.21**	**37.11**

14. DIVIDENDS

At the annual general meeting to be held in April 2022, no dividend (2020:Shs 850,000,000) is to be proposed. No interim dividend was paid during the year.

Payment of dividends is subject to withholding tax at the rate of 5% or 10%, depending on the residence of the individual shareholders.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

15. MOTOR VEHICELS AND EQUIPMENT

	Motor vehicles Shs' 000	Fittings and equipment Shs' 000	Total Shs' 000
Year 2020			
Cost	25,969	312,415	338,384
Additions	680	15,634	16,314
At 31 December 2020	**26,649**	**328,049**	**354,698**
Depreciation			
At 1 January 2020	18,406	243,176	261,582
Charge for the year	3,328	24,289	27,617
At 31 December 2020	**21,734**	**267,465**	**289,199**
Net book value			
At 31 December 2020	**4,915**	**60,584**	**65,499**
Year 2021			
Cost	26,649	328,049	354,698
Additions	-	14,601	14,601
Disposal	-	(187)	(187)
At 31 December 2021	**26,649**	**342,463**	**369,112**
Depreciation			
At 1 January 2021	21,734	267,465	289,199
Charge for the year	2,560	22,906	25,466
Eliminated on disposal	-	(187)	(187)
At 31 December 2021	**24,294**	**290,184**	**314,478**
Net book value			
At 31 December 2021	**2,355**	**52,279**	**54,634**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

16. INTANGIBLE ASSETS

	Computer software	Other intangible assets	Total
	Shs' 000	Shs' 000	Shs' 000
Year 2020			
Cost	189,820	106,986	296,806
Additions	-	158,004	158,004
Transferred to expenses	-	(67,052)	(67,052)
At 31 December 2020	**189,820**	**197,938**	**387,758**
Amortisation and impairment			
At 1 January 2020	152,540	-	152,540
Charge for the year	14,489	14,770	29,259
Impairment	-	56,105	56,105
At 31 December 2020	**167,029**	**70,875**	**237,904**
Net book value			
At 31 December 2020	**22,791**	**127,063**	**149,854**
Year 2021			
Cost	189,820	197,938	387,758
Additions	1,666	68,675	70,341
At 31 December 2021	**191,486**	**266,613**	**458,099**
Amortisation and impairment			
At 1 January 2021	167,029	70,875	237,904
Charge for the year	14,152	38,796	52,948
At 31 December 2021	**181,181**	**109,671**	**290,852**
Net book value			
At 31 December 2021	**10,305**	**156,942**	**167,247**

Other intangible assets are internally generated and relate to the costs incurred in developing software in form of applications for the Health and Motor classes of business. The costs that fall within the capitalisation criteria as determined by IAS 38 have been capitalised. Amounts transferred to expenses did not meet the capitalisation criteria.

17. RIGHT OF USE ASSETS

	2021	2020
	Shs'000	Shs'000
As at 1 January	240,922	315,807
Amortisation charge for the year	(73,730)	(74,885)
Impact of lease modification	4,531	-
At 31 December	**171,723**	**240,922**

The Company leases office space. The leases of office spaces are typically for a period of 6 years, with an option to renew. The leases contain no restrictions or covenants other than the protective rights of the lessor or carries no residual guarantee.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

18. INVESTMENT PROPERTIES

	2021 Shs'000	2020 Shs'000
At 1 January	1,020,000	1,020,000
Disposals	-	-
Fair value gain (Note 6)	20,000	-
At 31 December	**1,040,000**	**1,020,000**

Investment properties were last revalued on 31 December 2021, by Axis Real Estate Limited, independent valuers, on the basis of open market value for existing use.

The table below analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

At 31 December 2021	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Investment properties	-	-	1,040,000	1,040,000
At 31 December 2020				
Investment properties	-	-	1,020,000	1,020,000

Valuation technique used to derive level 3 fair values

The management uses experts in determination of the values to adopt. In performing the valuation, the valuer uses discounted cash flow projections which incorporate assumptions around the continued demand for rental space, sustainability of growth in rent rates as well as makes reference to recent sales.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

19. EQUITY INVESTMENTS

(a) Investment in associates

	2021 Shs'000	2020 Shs'000
At I January	246,771	662,479
Disposal	-	(434,066)
Share of after tax (loss) / profit	(16,094)	4,085
Share of investment revaluation reserve, net of tax	1,572	(1,314)
Translation adjustment	10,193	15,587
At 31 December	**242,442**	**246,771**

This comprises 1,907,400 (2020: 1,907,400) ordinary shares of Tanzania Shillings 1,000 each representing 34% shareholding in Reliance Insurance Company (Tanzania) Limited, an insurance company incorporated in Tanzania and has a 31 December as their reporting date.

Summarised financial information in respect of the company's share of results and net assets in the associates is set out below:

	2021 Shs'000	2020 Shs'000
Total assets:		
Reliance Insurance Company (Tanzania) Limited	2,477,455	2,396,630
Total liabilities:		
Reliance Insurance Company (Tanzania) Limited	1,733,701	1,670,833
Net assets:		
Reliance Insurance Company (Tanzania) Limited	743,754	725,797
Company's share of net assets of associate:		
Reliance Insurance Company (Tanzania) Limited	242,442	246,771
Total revenue:		
Reliance Insurance Company (Tanzania) Limited	1,662,277	1,367,146
(Loss) / Profit for the year:		
Reliance Insurance Company (Tanzania) Limited	(47,335)	12,015
Company's share of profit for the year:		
Reliance Insurance Company (Tanzania) Limited	(16,094)	4,085

(b) Investment in unquoted shares

	2021	2020
At 1 January	12,953	11,062
Fair value gain through OCI	1,363	1,891
31 December	**14,316**	**12,953**

20. FAIR VALUE THROUGH PROFIT AND LOSS QUOTED EQUITY INVESTMENTS

	2021 Shs'000	2020 Shs'000
At 1 January	690,104	1,392,749
Additions	612,893	224,442
Disposals	(134,002)	(660,272)
Fair value gain / (loss)	15,938	(266,815)
At 31 December	**1,184,933**	**690,104**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

21. LOANS RECEIVABLE

	2021 Shs'000	2020 Shs'000
Mortgage loans	72,354	77,004
At 1 January	-	14,915
Loans advanced	(3,381)	(19,527)
Repayments received	(35)	(38)
Provision for impairment		
At 31 December	**68,938**	**72,354**
Other loans		
At 1 January	28,250	40,849
Loans advanced	5,585	9,231
Repayments received	(6,080)	(21,816)
Provision for impairment	(15)	(14)
At 31 December	**27,740**	**28,250**
Total	**96,678**	**100,604**
Summary		
At 1 January	100,604	117,853
Loans advanced	5,585	24,146
Loan repayments	(9,461)	(41,343)
Provision for impairment	(50)	(52)
At 31 December	**96,678**	**100,604**
Lending commitments		
Mortgage loans approved by the directors but not disbursed at 31 December	-	-

There is no undue concentration of credit risk with respect to mortgage and other loans. Weighted average effective interest rates are disclosed under note 36.

22. REINSURERS' SHARE OF INSURANCE LIABILITIES AND RESERVES

	2021 Shs'000	2020 Shs'000
Reinsurers' share of:		
- provision for unearned premiums (Note 32)	1,349,781	1,170,829
- notified claims outstanding (Note 31 (b))	858,717	612,254
-claims incurred but not reported (Note 31(b))	488,040	362,505
Total	**2,696,538**	**2,145,588**

Amounts due from reinsurers in respect of claims already paid by the company on contracts that are reinsured are included in receivables arising out of reinsurance arrangements in the statement of financial position. Movements in the above reinsurance assets are shown in notes 31 and 32.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23. DEFERRED ACQUISITION COSTS

	2021 Shs'000	2020 Shs'000
At 1 January	156,038	173,799
Additions	147,618	156,038
Amortisation for the year	(156,038)	(173,799)
At 31 December	**147,618**	**156,038**

24. OTHER RECEIVABLES

	2021 Shs'000	2020 Shs'000
Due from related companies (Note 40(iii)(a))	961	9,403
Staff advances	16,310	16,262
Sundry deposits and prepayments	28,936	26,441
Rental receivables	21,668	21,798
Other receivables	19,784	8,827
Provision for impairment	(25,271)	(17,602)
Total	**62,388**	**65,129**

The carrying value of the above receivables approximates their fair values.

25. GOVERNMENT SECURITIES

		2021 Shs'000	2020 Shs'000
(a)	**At amortised costs**		
	Treasury bills and bonds at amortised cost maturing:		
	After 90 days but within a year	70,867	326,530
	In 1 to 5 years	1,466,122	790,855
	Over 5 years	203,692	361,674
	Provision for impairment	(783)	(666)
	Total	**1,739,898**	**1,478,393**
(b)	**Fair value through profit or loss**		
	Government treasury and infrastructure bonds:		
	At 1 January	5,963,048	5,204,521
	Additions	1,677,006	2,049,201
	Maturities during the year	(952,849)	(61,157)
	Disposals	(1,337,289)	(1,263,239)
	Fair value (loss) / gain through profit or loss	(112,780)	33,722
	At 31 December	**5,237,136**	**5,963,048**

The treasury bonds include bonds under lien as required by Insurance Act with a carrying value of Shs 820 million (2020: Shs 802 million).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

26. DEPOSITS WITH FINANCIAL INSTITUTIONS

	2021 Shs'000	2020 Shs'000
Deposits maturing:		
Within 90 days	998,906	380,707
After 90 days but within a year	569,237	819,947
After 1 year	75,522	76,064
Provision for impairment	(77,483)	(80,307)
Total	**1,566,182**	**1,196,411**

The deposit with financial institutions includes Shs 75.5 Million (2020: Shs 76.6 Million) deposit with Imperial Bank Limited (in receivership). The directors have made full impairment provision for this deposit.

Weighted average effective interest rates are disclosed under note 36.

27. COMMERCIAL PAPER AND CORPORATE BONDS

	2021 Shs'000	2020 Shs'000
At 1 January	99,505	224,332
Additions	-	25,834
Maturities during the year	(73,712)	(150,392)
Provision for write back / impairment	269	(269)
At 31 December	**26,062**	**99,505**

Weighted average effective interest rates are disclosed under note 36.

28. SHARE CAPITAL

	Number of shares	Share Capital Shs'000
Balance as at 1 January 2020, 31 December 2020 and 31 December 2021	**12,500,000**	**1,250,000**

The total authorised number of ordinary shares is 12,500,000 with a par value of Shs 100 per share. All issued shares are fully paid.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

29. RESERVES

a) Other reserves

Other reserves represent net surpluses /(deficits) that arise on the revaluation of financial assets carried through other comprehensive income. This reserve is non-distributable. Where a revalued financial asset is sold, the portion of the reserve that relates to that financial asset, and is effectively realised, is recognised in profit and loss.

Where a revalued financial asset is impaired, the portion of the reserve that relates to that financial asset is recognised in profit and loss.

The movement in this reserve is shown in the statement of changes in equity.

b) Translation reserve

The translation reserve relates to translation gains and losses arising from translating the financial statements of the foreign operation in Tanzania.

The movement in this reserve is shown in the statement of changes in equity.

30. RETAINED EARNINGS

The retained earnings balance represents the amount available for distribution to the shareholders of the company, with the exception of cumulative fair value gains on the Company's investment properties amounting to Shs 785,825,000 (2020: Shs 765,825,000) whose distribution is subject to restrictions imposed by legislation.

31. (a) INSURANCE CONTRACT LIABILITIES

	2021 Shs'000	2020 Shs'000
Short term non – life insurance contracts		
- claims reported and claims handling expenses	4,226,270	4,062,402
- provision for claims incurred but not reported	2,038,950	1,787,285
Total	**6,265,220**	**5,849,687**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31. (a) INSURANCE CONTRACT LIABILITIES (continued)

(b) Movements in insurance contract liabilities and reinsurance assets

	2021			2020		
	Gross	Re-insurance	Net	Gross	Re-insurance	Net
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
At 1 January:						
Notified claims	4,062,402	612,254	3,450,148	4,495,634	711,517	3,784,117
Incurred but not reported	1,787,285	362,505	1,424,780	1,368,872	1,536,647	270,156
Total at 1 January	**5,849,687**	**974,759**	**4,874,928**	**6,492,192**	**6,032,281**	**981,673**
Cash paid for claims settled in year	(6,336,458)	(1,660,243)	(4,676,215)	(5,625,705)	(1,284,139)	(4,341,566)
-arising from current year claims	5,360,701	1,202,595	4,158,106	5,360,701	1,202,595	4,158,106
-arising from prior year claims	1,289,063	710,899	578,164	82,410	74,630	7,780
Total increase in liabilities	6,649,764	1,913,494	4,736,270	5,443,111	1,277,225	4,165,886
Change in outstanding claims	415,533	371,998	43,535	(182,594)	(6,914)	(175,680)
Total at 31 December	**6,265,220**	**1,346,757**	**4,918,463**	**5,849,687**	**974,759**	**4,874,928**
Notified claims	4,226,270	858,717	3,367,553	4,062,402	612,254	3,450,148
Incurred but not reported	2,038,950	488,040	1,550,910	1,787,285	362,505	1,424,780
Total at 31 December	**6,265,220**	**1,346,757**	**4,918,463**	**5,849,687**	**974,759**	**4,874,928**

32. PROVISION FOR UNEARNED PREMIUM AND UNEXPIRED RISK RESERVE

The provision for unearned premium represents the liability for short term business contracts where the Company's obligations have not expired at the year end. Movements in the reserves are shown below:

	Gross	Re-insurance	2021	Gross	Re-insurance	2020
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At 1 January	3,570,091	1,170,829	2,399,262	3,307,890	820,984	2,486,906
Increase / (Decrease)	349,106	178,952	170,154	262,201	349,845	(87,644)
At 31 December	**3,919,197**	**1,349,781**	**2,569,416**	**3,570,091**	**1,170,829**	**2,399,262**

The Company uses 1/365th method of calculating the unearned premium reserve. The 2021 reserve includes a net provision for unexpired risk reserve of Shs 100,987,000 (2020: Shs 52,429,000)

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

33. LEASE LIABILITIES

	2021 Shs'000	2020 Shs'000
1 January	307,822	346,257
Impact of lease modification	4,531	-
Lease payments	(105,207)	(90,628)
Interest on lease (Note 11)	47,010	52,193
Balance at 31 December	**254,156**	**307,822**
Maturity analysis		
Year 1	99,200	108,447
Year 2	104,291	114,744
Year 3	110,194	120,887
Year 4	21,131	127,842
Year 5	22,432	21,131
Over 5 yrs	102,809	125,240

The lease liability is calculated as the present value of the outstanding rentals discounted using the incremental borrowing rate. The Company does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's financial function.

34. OTHER PAYABLES

	2021 Shs'000	2020 Shs'000
Due to related companies	-	9,328
Accrued expenses	105,222	154,851
Rental deposits	20,448	23,196
Medical self funded schemes deposits	55,229	54,475
Other liabilities	128,254	144,747
Total	**309,153**	**386,597**

35. DEFERRED TAXATION

Deferred taxation is calculated using the enacted capital gains tax rate of 5% for investment properties and available for sale cumulative reserves and 30% for the assets (2020: 30%). Deferred tax assets and liabilities, and the deferred tax charge / (credit) in the statement of profit or loss (P/L) and in other comprehensive income (OCI) are attributable to the following items

	2021 Shs'000	2020 Shs'000
At 1 January	(420,073)	(441,151)
Charge to profit or loss	130,638	5,514
Charge to other comprehensive income	588	714
Accrued costs	2,196	14,850
At 31 December	**(286,651)**	**(420,073)**

35. DEFERRED TAXATION (CONTINUED)

Year ended 31st December 2021	At 1 Jan 2021 Shs'000	(Credited)/ Charged to P/L Shs'000	(Credited)/ Charged to OCI Shs'000	At 31 Dec 2021 Shs'000
Deferred income tax asset				
Property & equipment on historical cost basis	1,028	-	-	1,028
Provision for impairment	(433,583)	129,638	-	(303,945)
Impairment provision for fixed deposit	(22,981)	-	-	(22,981)
Accrued costs	(3,121)	2,196	-	(925)
Sub-Total	(458,657)	131,834		(326,823)
Deferred income tax liability				
Available for sale investments	116	-	588	704
Investment properties	38,468	1,000	-	39,468
Sub-Total	38,584	1,000	588	40,172
Net deferred tax asset	**(420,073)**	**132,834**	**588**	**(286,651)**

Year ended 31st December 2020	At 1 Jan 2020 Shs'000	(Credited)/ Charged to P/L Shs'000	(Credited)/ Charged to OCI Shs'000	At 31 Dec 2020 Shs'000
Deferred income tax asset				
Property & equipment on historical cost basis	1,028	-	-	1,028
Provision for impairment	(439,097)	5,514	-	(433,583)
Impairment provision for fixed deposit	(22,981)	-	-	(22,981)
Accrued costs	(17,971)	14,850	-	(3,121)
Sub-Total	**(479,021)**	20,364		(458,657)
Deferred income tax liability				
Available for sale investments	(598)	-	714	116
Investment property	38,468	-	-	38,468
Sub-Total	**37,870**	-	714	38,584
Net deferred tax asset	**(441,151)**	**20,364**	**714**	**(420,073)**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

36. WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

The following table summarises the weighted average effective interest rate at 31 December on the principal interest-bearing investments:

	2021	2020
	%	%
Mortgage loans	10	10
Government securities	12	12
Deposits with financial institutions	10	10
Commercial bonds	12	13
Other loans	10	10

37. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Cash generated from operations

	2021	2020
	Shs'000	Shs'000
Reconciliation of profit before tax to cash generated from operations; Profit before taxation	841,373	628,097
Adjustments for:		
Interest income	(803,515)	(687,146)
Depreciation – Motor vehicles and equipment (Note 15)	25,466	27,617
Amortisation of intangible assets (Note 16)	52,948	29,259
Impairment loss of intangible assets (Note 16)	-	56,105
Depreciation – Right – of- use assets (Note 17)	73,730	74,885
Gain on sale of financial assets (Note 6)	(72,121)	(96,181)
(Gain) / Loss on sale of investment in associate (Note 6)	-	(22,453)
Unrealised loss on revaluation of financial assets at FVTPL (Note 6)	96,842	233,092
Gain in fair value of investment property (Note 18)	(20,000)	-
Expected credit loss charge	(20,728)	27,609
Share of profits from associates (Note 19(a))	16,094	(4,085)
Profit before working capital changes	190,089	266,799
Changes in working capital:		
- technical provisions	213,689	(263,325)
- trade and other payables	(320,264)	163,508
- trade and other receivables	620,892	29,012
Cash generated from operations	704,406	195,994

(b)

	2021	2020
For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:		
Cash and bank balances	103,857	75,725
Deposits with financial institutions maturing within 3 months (Note 26)	998,906	380,707
Bank overdraft	(33,261)	(45,948)
Total	**1,069,502**	**410,484**

38. CONTINGENT LIABILITIES

In common with the insurance industry in general, the Company is subject to litigation arising in the normal course of insurance business. The directors are of the opinion that the outstanding litigation in this respect will not have a material effect on the financial position or profits of the company.

The Company has issued financial guarantees against counter indemnities from third parties for an aggregate outstanding exposure of Shs 32,000,000 as at 31 December 2021 (2020: Shs. 61,594,000). No loss is expected to arise on these guarantees.

39. COMMITMENT

Capital commitments

Capital commitments at the end of the year for which no provision has been made in these financial statements are as follows:

	2021 Shs'000	2020 Shs'000
Authorised and contracted for	39,698	36,089
Authorised but not contracted for	53,649	48,772
Total	93,347	84,861

Lease commitments

The future minimum lease payments under non-cancellable leases are as follows:	2021 Shs 000	2020 Shs 000
Not later than 1 year	99,200	108,447
Later than 1 year and not later than 5 years	357,247	384,604
Later than 5 years	102,809	125,240

40. RELATED PARTIES

The Company is controlled by Apollo Investments Limited, a company incorporated in Kenya which owns 100% of the Company's shares.

In the normal course of business, insurance policies are sold to related parties. Transaction with related parties during the year and related outstanding balances are disclosed below:

	2021 Shs'000	2020 Shs'000
i) Insurance business transacted with related parties		
Gross written premium:		
- Parent company	4,359	3,433
- Other related parties	4,356	1,173
Total	**8,715**	**4,606**
ii) Mortgage loans advanced to staff	68,938	72,354

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

40. RELATED PARTIES (Continued)

		2021 Shs'000	2020 Shs'000
(iii)	**Outstanding balances with related parties**		
(a)	**Due from related parties (Note 24)**		
	APA Life Assurance Limited	384	9,403
	Reliance Insurance Company (Tanzania) Limited	-	-
	APA Insurance (Uganda) Limited	577	-
	Apollo Asset Management Company Limited	-	-
	Total (Note 24)	**961**	**9,403**
(b)	Due to related parties (Note 34)		
	Apollo Asset Management Company Limited	-	(9,021)
	APA Insurance (Uganda) Limited	-	(307)
	Total (Note 34)	**-**	**(9,328)**
(iv)	**Directors' and key management remuneration**		
	Directors' fees	8,305	8,711
	Directors' other remuneration	76,567	82,500
	Remuneration to key management personnel (included in staff costs (Note 10))	192,318	165,920
	Total	**277,190**	**257,131**

UNDERWRITING REVENUE ACCOUNT
For the year ended 31 December 2021

Class of Insurance Business	Aviation	Engineering	Fire Domestic	Fire Industrial	Liability	Marine & Transit	Motor Private	Motor Commercial	Personal Accident	Medical	Theft	Workmen's Compen Sation	Micro insurance	Miscellaneous	2021 Total	2020 Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Gross premium written	215,866	243,702	87,837	984,085	177,351	239,697	1,525,862	1,312,527	347,377	3,840,078	210,477	908,782	431,433	101,580	10,626,654	9,508,915
Change in gross UPR	23,551	(34,607)	(690)	(59,993)	(15,764)	(17,638)	(42,234)	(1,339)	(49,838)	(82,666)	(106)	(75,425)	18,169	(10,525)	(349,105)	(262,200)
Gross earned premium	239,417	209,095	87,147	924,092	161,587	222,059	1,483,628	1,311,188	297,539	3,757,412	210,371	833,357	449,602	91,055	10,277,549	9,246,715
Less: reinsurance payable	(237,135)	(152,443)	(22,139)	(671,717)	(90,448)	(78,584)	(63,639)	(23,317)	(167,068)	(1,504,723)	(32,978)	(281,741)	(387,788)	(9,409)	(3,723,129)	(2,792,437)
Net earned premium	**2,282**	**56,652**	**65,008**	**252,375**	**71,139**	**143,475**	**1,419,989**	**1,287,871**	**130,471**	**2,252,689**	**177,393**	**551,616**	**61,814**	**81,646**	**6,554,420**	**6,454,278**
Gross claims paid	-	55,320	13,759	193,494	48,750	71,285	1,266,193	1,087,582	65,195	3,116,755	63,466	166,308	247,128	1,260	6,396,495	5,625,704
Change in gross outstanding claims	14,377	107,295	(4,591)	216,393	(44,630)	26,500	298,711	10,850	(3,366)	(129,589)	(23,682)	(18,078)	86,878	(121,535)	415,533	(182,594)
Less: Reinsurance recoverable	(10,903)	(108,196)	421	(258,225)	5,851	(32,140)	(84,758)	(23,994)	(1,857)	(1,171,564)	773	(110,359)	(298,062)	734	(2,092,279)	(1,281,061)
Net incurred claims	**3,474**	**54,419**	**9,589**	**151,662**	**9,971**	**65,645**	**1,480,146**	**1,074,438**	**59,972**	**1,815,602**	**40,557**	**37,871**	**35,944**	**(119,541)**	**4,719,749**	**4,162,049**
Commissions receivable	(33,898)	(73,767)	(2,905)	(196,722)	(8,838)	(36,483)	(1,490)	(463)	(121,465)	(309,621)	(1,975)	(98,886)	(48,312)	(797)	(935,622)	(647,527)
Commissions payable	22,423	57,521	15,996	188,058	17,465	39,251	141,027	129,453	72,819	352,287	20,624	188,675	26,988	7,665	1,280,252	1,095,747
Expenses of management	15,138	31,240	11,598	127,817	23,477	31,380	206,835	179,942	44,794	513,092	27,877	132,901	56,794	13,749	1,416,634	1,578,673
Total expenses and commissions	3,663	14,994	24,689	119,153	32,104	34,148	346,372	308,932	(3,852)	555,758	46,526	222,690	35,470	20,617	1,761,264	2,026,894
Underwriting profit / (loss)	**(4,855)**	**(12,761)**	**30,730**	**(18,440)**	**29,064**	**43,682**	**(406,529)**	**(95,499)**	**74,351**	**(118,671)**	**90,310**	**291,055**	**(9,600)**	**180,570**	**73,408**	**265,335**

Key ratios	2021 %	2020 %
Loss ratio (net claims incurred/net earned premium)	**72.00**	**64.45**
Commissions ratio (commissions payable/gross written premium)	**12.04**	**11.52**
Expense ratio (management expenses/gross written premium)	**13.33**	**16.60**

THE APOLLO GROUP

Head Office

APA Insurance Limited,
Apollo Centre, 07 Ring Road, Parklands,
P.O. Box 30065-00100, Nairobi.
Tel: +254 (0) 20 286 2000
E-mail: info@apainsurance.org
Website: www.apainsurance.org

Branch Offices

City Centre

3rd Floor, ABSA Plaza (formerly Barclays),
Loita Street.
Tel: +254 (0) 20 286 2000
E-mail: info@apainsurance.org

Mombasa

Ground Floor, Apollo House, Moi Avenue.
Tel: +254 (0) 20 286 2400
E-mail: apa.mombasa@apainsurance.org

Nakuru

Ground Floor, Giddo Plaza,
George Morara Road.
Tel: +254 (0) 51 221 3412/6
E-mail: apa.nakuru@apainsurance.org

Kisumu

Ground Floor, Tuff Foam Mall,
Jomo Kenyatta Highway.
Tel: +254 (0) 20 216 2908
E-mail: apa.kisumu@apainsurance.org

Naivasha

1st Floor, Eagle Centre, Mbaria Kaniu Road.
Tel: +254 (0) 50 202 0086
E-mail: apa.naivasha@apainsurance.org

Eldoret

1st Floor, Zion Mall, Uganda Road.
Tel: +254 (0) 53 203 0937
E-mail: apa.eldoret@apainsurance.org

Thika

5th Floor, Zuri Centre, Kenyatta Highway.
Tel: +254 (0) 67 222 197
E-mail: apa.thika@apainsurance.org

Meru

2nd Floor, Hart Towers, off Meru Highway.
Tel: +254 (0) 64 313 1821/3
E-mail: apa.meru@apainsurance.org

Nyeri

1st Floor, Peak Business Centre,
off Kenyatta Highway.
Tel: +254 (0) 61 203 0332
E-mail: apa.nyeri@apainsurance.org

Embu

1st Floor, Ganga Building, Kenyatta Highway.
Tel: +254 (0) 68 223 0103
E-mail: apa.embu@apainsurance.org

Kisii

2nd Floor Mocha Place, Kisii-Kisumu Road.
Tel: +254 (0) 58 203 1773
E-mail: apa.kisii@apainsurance.org

Machakos

ABC Imani Plaza, Ngei Road.
Tel: +254 (0) 44 21455
E-mail: apa.machakos@apainsurance.org

Group Companies

APA Life Assurance Limited

Apollo Centre, 07 Ring Road, Parklands,
P.O. Box 30389-00100, Nairobi.
Tel: +254 (0) 20 364 1000
E-mail: info@apalife.co.ke
Website: www.apalife.co.ke

APA Insurance (Uganda) Limited

5th Floor, AHA Towers, 7 Lourdel Road,
P.O. Box 756, Nakasero, Kampala.
Tel: +256 200 907 003 | +256 200 907 004
E-mail: apa.uganda@apainsurance.org

Branches: Mbarara, Mbale, Jinja & Mukono

Apollo Asset Management Company Limited

Apollo Centre, Ring Road, Parklands,
P.O. Box 30389-00100, Nairobi.
Tel: +254 (0) 20 364 1000
E-mail: assetmanagement@apollo.co.ke
Website: www.apolloassetmanagement.co.ke

Gordon Court Limited

Apollo Centre, Ring Road, Parklands,
P.O. Box 30389-00100, Nairobi.
Tel: +254 020 364 1900
E-mail: info@apollocentre.org
Website: www.apollocentre.org

Associate Company

Reliance Insurance Company (Tanzania) Limited

3rd & 4th Floors Reliance House,
Plot No. 356, United Nations Road, Upanga,
P.O. Box 9826, Dar es Salaam.
Tel: +255 (22) 212 0088-90
E-mail: insure@reliance.co.tz